THE STATE OF ECONOMIC DEVELOPMENT

(110–2)

HEARING

BEFORE THE

SUBCOMMITTEE ON
ECONOMIC DEVELOPMENT, PUBLIC BUILDINGS AND EMERGENCY MANAGEMENT

OF THE

COMMITTEE ON
TRANSPORTATION AND
INFRASTRUCTURE
HOUSE OF REPRESENTATIVES

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January 22, 2007

SUMMARY OF SUBJECT MATTER

TO:	Members, Subcommittee on Economic Development, Public Buildings, and Emergency Management
FROM:	Subcommittee on Economic Development, Public Buildings, and Emergency Management Staff
SUBJECT:	Oversight Hearing on "The State of Economic Development"

PURPOSE

The Subcommittee will meet on Tuesday, January 23, 2007, at 10 a.m. in room 2167 Rayburn House Office Building to receive testimony from a panel of economic development experts on "The State of Economic Development." The experts will provide testimony on the history of federal economic development programs, the role of the Federal Government in economic development, and suggestions for 21st century investment.

BACKGROUND

Economic Development History

The Public Works and Economic Development Act of 1965 created partnerships between the Federal Government and state and local development entities to alleviate conditions of substantial and persistent unemployment in economically distressed areas and regions. One of the goals of the federal role in national economic development activities is to enhance community success in attracting private capital investment and lucrative job opportunities. It is a small but highly visible part of federal influences on national economic opportunity.

Historically, federal development efforts have been aimed at increasing overall national productivity and helping economically distressed communities share in the country's general prosperity. Through a variety of organizations at the federal, state, and local levels, the Federal Government has forged relationships with multi-county districts and community-based development organizations, as well as private sector partners and industrial organizations, to achieve these goals.

Types of Federal Economic Programs

Generally, there are three distinct types of federal programs that influence economic conditions. For example at the overall national level, monetary and fiscal policies, as well as regulation of financial institutions, tax policy, and trade policy, are all programs aimed at broad national economic health. In the second broad category are federal programs, which while not specifically economic programs, have economic consequences. Examples of these programs include infrastructure construction and maintenance, aid for veterans and the needy and environmental remediation. Finally, the third tier of economic activities is programs which are quite small and directly targeted at improving economic conditions at the local and state level. The hearing will focus on development of these programs which seek to influence economic activity in a specific location.

With this hearing, and after four decades of federal involvement in this matter, the Subcommittee will begin to analyze the continuing federal role, the importance of building and sustaining relationships not only at the state and local levels but also with businesses, citizens, and civic organizations, the necessity of focusing on metropolitan as well as rural areas, and retaining the public trust by focusing on process and results.

Committee Jurisdiction

The Economic Development, Public Buildings, and Emergency Management Subcommittee has jurisdiction over various economic development entities including the Economic Development Administration (EDA), which is within the Department of Commerce, the Appalachian Regional Commission (ARC), the Delta Regional Authority (DRA), the Denali Commission, and the Northern Great Plains Commission.

The Economic Development Administration

The Economic Development Administration (EDA), created by the Public Works and Economic Development Act of 1965, is an entity administered through the Department of Commerce. EDA's primary focus has been on its public works grant program, which is designed to aid economically distressed communities with the goal of creating long-term sustainable jobs. The types of projects funded through the program include the construction of water and sewer facilities, access roads, and business incubator buildings. Under the Act, EDA grants are generally required to be matched by a 50 percent cost-sharing requirement. State, local, or private sources provide the funds for the non-Federal match.

EDA is also the primary federal program dealing with economic distress caused by base closures. With regard to base closures, EDA provides grants for planning and administrative expenses for projects, as well as grants for training, research, and technical assistance.

Projects and initiatives for EDA funding are chosen through an application process. States have a designated Federal "Economic Development Representative" who works with local economic development districts to identify eligible projects. An application is then forwarded to one of six EDA regional offices for review. The application must receive approval by both the regional office and EDA headquarters in Washington, D.C. EDA considers grants on a rolling basis over the course of a fiscal year.

In the he 108th Congress, Congress enacted the Economic Development Administration Reauthorization Act of 2004 (P.L. 108-373), which reauthorized EDA for four years. The legislation revised several definitions and allowed for the inclusion of non-profit entities in eligible economic development activities. The bill also granted the Secretary of Commerce new authority to implement a performance-based incentive plan, to issue new regulations relating to the operation of revolving loan funds, to increase the Federal share of grants, to allow for increased retention of funds, and to issue new performance regulations.

Although the Administration has attempted to portray the EDA as inefficient, since its 1998 reauthorization EDA has been able to document its program performance. According to a series of recent Rutgers University studies:

- EDA capital projects are on time (80-90 percent) and under budget (52 percent);
- They produce private-sector employment in 96 to 98 percent of the cases;
- Capital projects produce jobs at approximately $3,000 to $8,000 per job and EDA's Revolving Loan Fund (RLF) projects produce jobs for even less ($1,000 per job); and
- For every $1 million in EDA public works funding:
    - 325 direct permanent jobs are created;
    - $10 million is leveraged in private-sector investment; and
    - the local tax base is increased by $10 million.

EDA is currently funded through the annual appropriations process through the Science, State, Justice, Commerce, and Related Agencies Appropriations Act. In FY 2006, EDA was funded at $284 million. The FY 2007 authorization for EDA is $450 million, but the President's budget proposed only $327 million. The Administration's budget request proposes to consolidate EDA's public works, economic adjustment, and technical assistance funding in a $257 million Regional Development Account.

Appalachian Regional Commission

One of President John F. Kennedy's first legislative initiatives was to address the overwhelming poverty that persisted in the Appalachian region of the country. In response to his initiative, Congress passed the Appalachian Regional Development Act of 1965 which created the Appalachian Regional Commission (ARC). The primary function of ARC is to provide economic development assistance to a 13-state region which includes all of West Virginia and parts of Alabama, Georgia, Kentucky, Maryland, Mississippi, New York, North Carolina, South Carolina, Ohio, Pennsylvania, Tennessee, and Virginia. The region is populated by more than 20 million people. In addition, the Transportation Equity Act for the 21st Century significantly increased funding for the Appalachian Development Highway System (ADHS) and shifted the source of ADHS funding from the General Fund to the Highway Trust Fund.

The ARC's Federal-State organizational structure is unique. The Commission allocates the level of funding to each state. The Commission structure provides that both the Federal co-chairman and the state co-chairman must agree on policy and funding issues. ARC is viewed as a model program for Federal-state partnerships as this 50-50 power sharing arrangement forces the Federal Government and the states to come to agreement on issues. Additionally, the regional nature of the program motivates states to plan and adopt regional economic solutions to common problems.

During the 107th Congress, Congress enacted the Appalachian Regional Development Reauthorization Act of 2001 ("the ARC Reauthorization Act") (P.L. 107-149). The ARC Reauthorization Act built upon past successes of the Commission but made several amendments to existing law, and extended the authorization for five years. Specifically, the ARC Reauthorization Act expanded the Commission by adding four new adjacent counties, required the Commission to direct at least one-half of its grant funding to activities and projects in economically distressed counties, established a program to provide enhanced access to telecommunications and technology to the region, and lowered the cost-sharing amount for distressed counties.

Federal funding for ARC is subject to an annual appropriations process under the Energy and Water Development Appropriations Act. The ARC budget for FY 2006 was $65.5 million. The FY 2007 authorized level of funding is $92 million, but the FY 2007 requested level of funding in the President's budget was only $64.8 million. In addition, the Safe, Accountable, Flexible, and Efficient Transportation Equity Act – A Legacy for Users (SAFETEA-LU) separately authorized $470 million from the Highway Trust Fund for the Appalachian Development Highway System.

The Delta Regional Authority

Created by the Delta Regional Authority Act of 2000 (P.L. 106-554), the primary function of DRA is to provide economic development assistance to the eight states of the Mississippi River region. This region as defined includes counties in Alabama, Arkansas, Illinois, Kentucky, Louisiana, Mississippi, Missouri and Tennessee.

Structured similar to the ARC, DRA is a Federal-State entity consisting of the Governor (or his designee) of each region state and a Federal co-chairman. The Authority was created to improve the economic growth and prosperity of the Mississippi River region. DRA's mission is to help create jobs, attract industrial development, and grow local economies by improving infrastructure, training the workforce, and building local leadership. These goals will be accomplished through the improvement of transportation and basic infrastructure in the region, establishing a framework for crafting regional strategies for economic development, and improving job training and education. Funding for all proposed development plans and projects is subject to certification by the state member and subsequent Authority approval.

The Farm Security and Rural Investment Act of 2002 (P.L. 107-171) reauthorized the DRA for a five year period through 2007.

The DRA received $12 million in federal funding in FY 2006. The FY 2007 authorized level was $30 million, but the President's budget requested only $5.9 million.

The Denali Commission

The Denali Commission was created in 1998 with enactment of the Denali Commission Act of 1998 (PL 105-277). The Denali Commission confines all its economic development activities to the state of Alaska. It provides critical utilities, infrastructure, and economic support throughout the state and is charged with lowering the cost of and raising the standard of living in Alaska by delivering Federal resources in the most cost-effective manner. Similar but not identical to the ARC organizational structure, the Commission is co-chaired by a Federal and a state member (the Governor of Alaska) and includes a panel of five commissioners. In making funding decisions, commissioners must determine that funding would be consistent with the Commission's annual work plan, and the community's comprehensive development plans. Projects that are comprehensive, community based, regionally supported, and sustainable are given priority. The Commission is also tasked with providing assistance on water and sewer wastewater programs, and, in consultation with the Coast Guard, developing a plan to repair or replace bulk fuel storage tanks.

The Omnibus Appropriations Act of 2003 (P.L. 108-7) authorized such sums as necessary for the Denali Commission programs. In FY 2006, the Commission received $50 million in funding. The FY2007 authorized amount is unspecified, but the President's budget proposes only $2.5 million, a cut of almost 95 percent from FY 2006 enacted levels.

The Northern Great Plains Regional Authority

The Northern Great Plains Regional Authority was created in the Farm Security and Rural Investment Act of 2002. Its organizational structure is modeled closely after the management and operational structure of the Appalachian Regional Commission. The Authority is governed by a commission consisting of one member appointed by the President, the Governors of the states comprising the Authority, and a representative of an Indian tribe in the region appointed by the President. The Authority is designed to be a Federal grant program that would provide assistance in acquiring or developing land, constructing public infrastructure, carrying out economic development activities, and conducting research related to those activities.

The Northern Great Plains Regional Authority did not receive any federal funding in FY 2006, despite its $30 million authorization. The President's FY 2007 budget request proposed no funding for the Authority.

WITNESSES

Ms. Amy Glasmeier
Professor of Geography & Regional Planning and John Whisman Appalachian Scholar
Pennsylvania State University

Ms. Ann Markusen
Professor and Director, Project on Regional and Industrial Economics (PRIE)
Hubert H. Humphrey Institute of Public Affairs
University of Minnesota

Mr. Erik Pages
President
EntreWorks Consulting

Mr. Andrew Reamer
Fellow
Brookings Institution

THE STATE OF ECONOMIC DEVELOPMENT

Tuesday, January 23, 2007

House of Representatives,
Subcommittee on Economic Development, Public Buildings and Emergency Management,
Committee on Transportation and Infrastructure,
Washington, DC.

The subcommittee met, pursuant to call, at 10:30 a.m., in room 2167, Rayburn House Office Building, the Honorable Eleanor Holmes Norton [Chairwoman of the subcommittee] presiding.

Ms. Norton. Good morning, and may I welcome everyone to the first meeting of the Economic Development, Public Buildings, and Emergency Management Subcommittee.

This Committee and Subcommittee have always been the most bipartisan in the Congress, and I am committed to building on this invaluable cornerstone of cooperation and mutual respect. Our long history of working together collegially has yielded a tradition of consensus on most matters that come before this Committee.

In addition, I would like to thank Chairman Jim Oberstar, who is one of the architects of this tradition, for his leadership, encyclopedic expertise, and his lifetime commitment to transportation and infrastructure issues in the United States and, I should say, abroad, because his knowledge is worldwide.

I particularly want to welcome our new colleagues, Representatives Jason Altmire of Pennsylvania, Michael Arcuri of New York, Christopher Carney of Pennsylvania, Steve Cohen of Tennessee, and William Walz of Minnesota, and, of course, our new Ranking Member, Mr. Graves of Missouri.

Have I missed anybody? Representative Michael Michaud of Maine, who served on this Committee before.

This is the first of a series of hearings that will focus on the state of economic development in the United States and the issues associated with smarter and more efficient economic development needed in our Country.

Today's hearing will focus not only on economic development in the United States today, but also on the direction that experts believe the United States must go in order to prepare for the challenges that the global economy requires if the Nation is to continue to thrive.

Economic development was not a specific mission of the Federal Government until Congress passed the Public Works and Economic Development Act in 1965 and established the Economic Development Administration, or EDA. EDA was created to alleviate conditions of substantial and persistent unemployment in economically distressed areas and regions. The mission of EDA today remains much the same as it was when originally founded: “to enhance communities success in attracting private capital investment and lucrative job opportunities.”

EDA has stated that to fulfill its mission, it must—and here I am quoting again—“be guided by the principle that distressed communities must be empowered to develop and implement their own economic development and revitalization strategies.”

As our hearings have documented, the Act has been enormously successful, particularly in using modest Federal funds to attract and leverage much in private sector investment. Future hearings will also focus on the reauthorization of the Economic Development Administration and regional economic development issues.

To put economic development in context, we have to turn the page back 50 years, when President Eisenhower initiated the Federal Defense Highway System. This highway system not only linked our Country together into a coherent and efficient transportation hull, but it also boosted commerce and became the centerpiece of the world’s strongest economy. In addition, the legislation was the major economic development tool for most local communities.

Later, with passage of the Public Works and Economic Development Act of 1965, the Federal Government specifically targeted economic distressed areas where the Federal highway system had not had a revitalizing effect.

The Development Act addressed high unemployment, low incomes, under-employment, and out-migration as sign posts. As the economy of the United States continues to grow, these distressed areas, that often contain significant underused human and infrastructure resources, must remain clearly in focus in order to sustain their growth.

The effort to build the Federal highway system is often cited as building America. But now, 50 years later, with aging and sometimes obsolete infrastructure, we must look to rebuilding America or lose 50 years of valuable investment.

Today we must not only focus on rebuilding America, but also investigate how we can take the lessons from successful EDA projects and incorporate them into new efforts for distressed areas and, for that matter, other parts of the Country.

If building the interstate highway system was a major part of building the old economy, how can traditional infrastructure that we have supported and must improve work in synergy with the new economy to push the envelope of economic development? We must take a fresh look at the infrastructure itself, asking, for example, how the rapidly developing information highway can supplement our current highway system.

We are fortunate to be able to welcome our distinguished panel of experts on economic development that can inform the Subcommittee. The witnesses today include Amy Glasmeier of Penn State University; Eric Pages, President of EntreWorks, expert consultant on economic development as well; and Andrew Reamer, Fellow at the Brookings Institute.

I now am happy to acknowledge the Ranking Member, Sam Graves of Missouri, for his opening statement.

Mr. GRAVES. Thank you, Chairman Norton.

Let me begin by congratulating you on your chairmanship to this Subcommittee. Obviously, your expertise and your hard work are a testament to what you have done. And this is a Committee that is obviously very important to the District, and I think the people of the District of Columbia are very fortunate to have you representing them.

And thank you Chairman Oberstar. I think you made an excellent choice, and I look forward to working with you in the future.

I also want to take this opportunity to thank our Ranking Republican, Mr. Mica, for providing me the opportunity to serve as Ranking Member. I am honored by the trust that you have placed in me, and I intend to work hard to make the most of this opportunity. I know you have a number of important issues before the Subcommittee, and I look forward to working with you and the Chairman on all of them.

And I want to recognize Bill Shuster, the former chairman of the Subcommittee, for the outstanding job that he did as chairman. In the wake of Hurricane Katrina, you accomplished what a lot of people said you couldn't do: you moved a massive FEMA reform bill through a jurisdiction gauntlet that included the Commerce Committee and Homeland Security Committee, and you had it signed into law during an election year, when almost nothing else made it to the President's desk. And I think that is a truly impressive accomplishment which our Country is going to benefit for decades.

The members of this Subcommittee have an outstanding record of accomplishment. I am pleased to be able to serve as the Subcommittee's Ranking Member. I look forward to continuing the bipartisan tradition, as Chairman Norton pointed out. In many respects, the Subcommittee's bipartisan approach is the key to its success. I intend to work with the Chairman on both our Republican and Democrat priorities so we can prevail over the Senate.

As the Subcommittee moves forward and sets an agenda for the 110th Congress, there are a number of issues I hope we can address. On the economic development front, I look forward to working with the Chairman to increase the impact of our limited economic development dollars.

While economic globalization and increased international trade bring opportunities and lower cost goods to much of the Country, they can also bring severe economic dislocation, particularly in rural areas and manufacturing regions of our Country. I think it is important that our economic investments help spur innovation and opportunity in those areas, and not just in our large urban centers.

With respect to public buildings jurisdiction, we need to find ways to do more with less. Whether we are authorizing new courthouses or modernizing government-owned buildings, the available resources are limited and the project lists go on forever.

I also hope our Subcommittee will reassert its jurisdiction over the Capitol building and the grounds. The Capitol complex has a number of projects underway and in the planning phase that I believe our Subcommittee should be reviewing. I believe the Capitol Visitor Center, in particular, could benefit from our involvement.

We also must ensure the FEMA reform bill is properly implemented. We cannot afford another response like we had during Hurricane Katrina. I know in my home State of Missouri disasters are serious business. We are a high risk flood State and we are home to the largest earthquake ever recorded in the lower 48 States. The D.C. area is vulnerable to hurricanes and it is also the highest risk terrorist target in the Country. I look forward to working with the Department, State and local governments, emergency managers and first responders to make sure we reform our system and are ready for the next big disaster.

As a general theme, we must exercise sufficient oversight to reduce fraud, waste, and abuse in all the programs under our jurisdiction. When you consider the building projects and the disaster relief programs that we oversee, the opportunity for waste is tremendous. We owe it to the American people to get the most out of their hard-earned tax dollars.

Let me also thank our witnesses for being here today and for enduring our opening statements. I know I spent most of my time discussing our agenda for this Congress, but I want you to know that I look forward to your expert testimony and recommendations for the Federal Government's economic development programs.

Thank you again, Chairman Norton, and I look forward to the opportunity to work with you.

Ms. NORTON. Thank you, Mr. Graves, and I appreciate your statement.

I would like to ask the Chair of the full Committee for his remarks, particularly since we are talking about the Economic Development Act, which is, of course, his I shouldn't say baby, but that is what it was.

Mr. Oberstar.

Mr. OBERSTAR. Thank you, Madam Chair. Congratulations on assuming the Chair of the Committee. You have worked hard, you have learned the subject matter. You have a deep personal interest in all of the issues under the jurisdiction under this Subcommittee, and you have proven yourself in the past as the Ranking Member and now I am delighted to see you assume the leadership role.

Mr. Graves, congratulations on being designated as the Ranking Member. I have observed your participation diligently in the work of the full Committee on Transportation and Infrastructure. You are always there for the hearings and for the markups, and you have applied yourself vigorously.

And I want to thank former Chairman Shuster for his leadership of the Subcommittee. He comes from a long family tradition of commitment to the subject matter of our full Committee and particularly of this Subcommittee and, again, you did a superb job as Chair of this Subcommittee, and none better than during the tour of the devastation of Katrina when we had the joint committee inquiry into the aftermath of Katrina and you toured throughout Baton Rouge, New Orleans, Mississippi, and into Alabama. Your expertise and your commitment personally to the subject matter at hand will be extremely valuable as we go forward, and I appreciate your continuing to participate.

And to the Ranking Member of the full Committee, Mr. Mica, glad to have you participating. I know that you will diligently oversee the work of each of the subcommittees and participate in their deliberations. We have had discussion about the agenda of the full Committee and each of the subcommittees, and Mr. Mica and I are on track to achieving a good record for this Committee, an outstanding record of bipartisanship and participation in all of the works of this Committee.

Now, this particular subject matter of today, as Chairman Norton said, I have a very keen personal interest, and I have a reminder at home: a green pen that was used by Lyndon Johnson to sign into law the Public Works and Economic Development Act of 1965. I was a staff member for my predecessor, chief of staff for my predecessor, John Blotnik, at the time that legislation was written and participated in all of the subcommittee work, full committee, and the House-Senate conference in drafting the conference report on the Public Work and Economic Development Act. I worked on numerous—and I was at the White House for the signing of the bill, and that is why I have that one pen.

And over the years, as time passed and I was elected to Congress, in my first opportunity to chair a subcommittee, I chose the Public Buildings and Grounds and Economic Development Subcommittee, and the ranking member of the subcommittee at the time was Bill Klinger of Pennsylvania, who had served as the chief counsel for EDA in a previous career.

But we assumed the leadership of the subcommittee together at the time President Reagan proposed to abolish EDA and the Appalachian Regional Commission. We decided that we were going to prove the case that EDA and ARC together had served the Country well, that the investments made were indeed long-term, substantive, beneficial to the Country and to the communities, and that these two programs were grassroots-up initiatives; that the ideas for each project came from the community, not from Washington, not handed down to them by the Executive Branch or the National Legislative Branch.

And that indeed is the success and the key and the brilliance of EDA and ARC together, that they are community generated and have community participation. And that is the key to success that we want to continue to nurture, to foster, and to support in the reauthorization of EDA and ARC.

I was very pleased to hear Mr. Graves talk about reasserting jurisdiction over the Capitol Building, something that was siphoned away from our Committee in 1995, 1996, and Ranking Member Mica has a particularly keen interest and has spent a great deal of time looking over the shoulders of those who have been in charge of the Visitor Center project, which, as he will undoubtedly say, has far exceeded original cost estimates and could have been done for a good deal less, and very likely would have been had we retained our authority. We will work to reassert that authority in this Congress.

I welcome our witnesses and, with Ms. Norton, I welcome the new members, those newly elected to this Congress and those new to the work of the Subcommittee. And I look forward to a very interesting hearing and a very productive year ahead of us.

Thank you, Madam Chairman.

Ms. NORTON. Thank you, Mr. Chairman. And I am pleased to ask the Ranking Member of the full Committee if he would mind offering a few remarks at this time.

Mr. MICA. Well, thank you so much and congratulations to you Ms. Norton. I have worked with many members in Congress. I can't think of anyone who is more effective and has provided better leadership than you. We have worked on a number of issues together and she is a tough representative, and look forward to working with her in her new capacity, but very pleased to have you in this position and look forward to working with you.

I have already complimented the Chair on his ascension, after some 32 years, to the Chair of the full Committee and we have had a great working relationship and look forward to expanding on that as we work together on the six subcommittees and the full Committee's efforts. That will be great.

I thank again Mr. Shuster for his leadership in the past and welcome Mr. Graves. He will do an excellent job. I have watched his career too, and that is why he was elevated to this position. I think it is a very meaningful Subcommittee and the topic you launch today with I think is extremely important, economic development. Everything else is sort of second nature if we can provide good jobs and opportunities to people across the land, particularly in areas that need attention and combined resources of not only State and local and the private sector, but also the Federal Government.

I have had the opportunity to read some of the testimony and I think you brought together some good witnesses, and they focus on maximizing local resources in concert with Federal and other State and private efforts, and I think that is a very good approach. They also talk about better preparing our workforces, which is essential in this era.

I might say that I saw one of the testimonies also talks a little bit about export and might note for the record that 19 of 20 consumers in the future are outside the United States, and some of these areas that we are dealing with that need economic development assistance are not geared or prepared to compete in that international arena. So that is where the economic opportunities of consumes in the future lie. We need to do a better job in preparing and assisting those locales and efforts to compete in the global market.

So those are a couple of points that I wanted to make.

Finally, with limited resources—and these are big programs. You go through and there are 500 million I think we identified, sort of a combined effort in some of these programs, probably a little bit more here and there, and it has gone up and down, but better leveraging our limited funds I think is also a key to success, and I have seen some focus, or will be in this hearing, on that.

I will mention, in conclusion, that—and I did have this in advance—I intend to see that we take full jurisdiction as we finish the Capitol Visitor Center. The irony of all this is the project started in this Committee. The only hearings held on the bills—and I offered the two bills; I think you offered one at one point—were heard in this Subcommittee. The project got launched from this Subcommittee and it will finish with the oversight of this Subcommittee, and it will be the finest addition in the history of the United States Capitol, if not the largest.

But we will maintain closer supervision of the project and I think it will be something that every American can be proud of. It is the first addition in the history of the Capitol to be built not just for the convenience of the members, but for the convenience primarily of the owners, the citizens and residents and visitors who come here. So I am pleased to put in a word for our stake in that effort.

I think Ms. Norton knows my interest in the Federal Trade Commission building, that we expand the National Gallery of Arts and that we create a Federal cultural corridor and triangle. We have the responsibility for the larger vision. I mean, people can build buildings here and there, but we have to determine what this incredible national capital is going to look like 10, 20, 30 and generations down the pike, and I think that is an important project. I look forward to working with you.

And finally FEMA. We have got an obligation to make certain that we avoid some of the problems of the past and make that agency that we are so dependent upon—I come from Florida. Others from around the Country, the Gulf States, New Orleans, or wherever we have been hit by a natural disaster know the importance of having a well functioning agency. We have seen the need for that and we need to make certain we have it together, so to speak, with our FEMA efforts.

So a full platter, some exciting opportunities for a small Subcommittee but a very important, vital subcommittee within the Transportation and Infrastructure Committee, and I look forward to working with everyone as we move forward. Thank you.

Ms. NORTON. Well, thank you very much, Mr. Mica, for those very interesting and helpful remarks. And, if I may, I would certainly want to thank you for the assistance that you gave to me and the leadership that you took in our effort to open Reagan National Charter Service years after all other airports were open. Your determination, including going to the hangar at Reagan National, helped to make the point to those involved that this had to happen, that we couldn't leave a small plane or charter service closed down in the Nation's capital. That and other projects in which you have worked so cooperatively with me, for that I am most grateful.

Now, Mr. Graves, I don't know if you want to introduce your members, but as a point of personal privilege I would like to ask my own former chair if he has any opening remarks, because it gives me the opportunity to thank him once again, personally, for the extraordinary bipartisan spirit in which he ran the Subcommittee. He knows that his father was a favorite of mine, so he knows I would have reported him if he hadn't carried on that tradition. I am very grateful very much for your work on the Committee.

Mr. SHUSTER. Well, thank you very much. I appreciate that, Madam Chairman. And as most members know, when I was chairman, I always appreciated limited opening statements and brief opening statements, but if the Chair will indulge me, since this is the opening hearing on the Committee, I think it is appropriate that I say something.

First, to start off by congratulating the new Chairman of the Committee. I believe that we did some good work the last two years. We worked well together, I believe, and in a bipartisan manner. I think Mr. Graves pointed out that that is the key to the success, and I think that Chairman Oberstar pointed out the key to success in this Committee, whether it is the Subcommittee or the whole Committee, is working together in a bipartisan fashion, and hope to continue to do that.

I congratulate Mr. Graves for his being appointed Ranking Member. I know he will bring the energy and thoughtfulness that he always brings to the table when he works on anything.

And, finally, also to thank Mr. Mica for reappointing me to this Subcommittee. I think it is fair to say that this is not the most sought after Subcommittee on the full Committee, but it is one that I asked Mr. Mica I would like to be reappointed to because I think there is significant work to be done on this Subcommittee and I didn't want to take the last two years of knowledge I think that I have gained on this Subcommittee.

But there are important areas that we need to continue to focus on and I think, Madam Chairman, you were so effective in making sure we held the Federal Judiciary's feet to the fire, and I hope we continue to do that when we are looking at their proposals for building new courthouses and, most importantly, utilizing those courthouses.

I had a couple of meetings in the closing days of the last Congress with some members of the Federal Judiciary, and they assured us they were going to move forward with a study that is something that is going to be fair and we can count on to give us insight, although I do have to tell you when the Federal Judiciary says they take politics out of the Judiciary, well, what they did in the final days was to reappoint a new chairman of their sort of—I don't know what they call it exactly—their buildings and grounds committee, which happens to be the Federal judge who lives in my district and is a good friend of mine.

Judge Brook Smith, who serves on the Sixth Circuit in Philadelphia is a good friend of mine, very conservative, and he has assured me that politics had nothing to do with it, but I know he is going to take a tough-minded, fair approach to these utilization studies, which I think are so very important to us that we are using taxpayer dollars in an appropriate way building these courthouses and, again, utilizing them.

The national brokers contract I think is an important step we took two years ago to help improve the GSA's ability to go out there and find, in a cost-effective manner, leases for us to house different Federal agencies across this Country. And then, finally, the important work we are doing here today and we are going to be doing on the reauthorization of EDA, the Appalachian Regional Commission, and the Delta Regional Commission, all extremely important to this Nation and extremely important to my district.

And, finally, I want to welcome Ms. Glasmeier. Is that the way you pronounce it, Glasmeier? That is what I thought. We welcome you here as a professor at Penn State. I appreciate your being here. And also to let you know that my daughter will be, next fall, a freshman on the main campus there, so maybe we will run into each other as I am up there checking in on her from time to time, although she has insisted I give her a two hour rule that when I cross the Centre County line, I have to announce two hours before I cross it. So welcome here today.

Thank you all for being here today. And I yield back.

Ms. NORTON. Is there any other member who desires to make a statement before we call the witnesses forward?

[No response.]

Ms. NORTON. I would now like to welcome our witnesses, then. The Subcommittee especially appreciates that Professor Glasmeier has traveled a good distance to testify this morning.

I ask unanimous consent that our witnesses' full statements be included in the record. Without objection, so ordered.

Perhaps we should begin the panel with Ms. Glasmeier, Professor Glasmeier.

TESTIMONY OF AMY GLASMEIER, PROFESSOR OF GEOGRAPHY & REGIONAL PLANNING AND JOHN WHISMAN APPALACHIAN SCHOLAR, PENNSYLVANIA STATE UNIVERSITY; ERIC PAGES, PRESIDENT, ENTREWORKS CONSULTING; ANDREW REAMER, FELLOW, BROOKINGS INSTITUTE

Ms. GLASMEIER. Thank you very much. I am pleased to be here before the Committee.

I would like to offer the Committee, in its beginning deliberations, a copy of an atlas I did a couple years ago on poverty in the United States. It is a good geographical representation of where the Nation has been over the last 40 years and it will help you see where we have done a lot of good work and also identify places where there is still work to be done.

I might also like to comment that Dr. Markusen's absence here is due to a family health problem, but her comments are available for your review.

In addition to being a professor at Penn State, I am also the John Whisman Appalachian Scholar and I work with the Appalachian Regional Commission. This is the second time I have held that post and in that job I am responsible for assisting the Commission in thinking through big problems and big future issues. So my comments today are largely a reflection of having the opportunity to think about what are problems within that region, but also the extent to which those kind of problems we see nationally.

And I want to commend the Committee by noting that the two pieces of legislation that people have mentioned, the creation of EDA and the creation of ARC, has really contributed to the well being of America's communities. You can't go through a small town in the United States and drive down a main street without seeing the benefits of American investment. You can't drive by a small airport and not realize that there are Federal resources involved. You can't look at a health clinic and not recognize that there probably, 30 years ago, was some sort of Federal involvement in that. You can't look at a broadband system and not wonder whether or not there is some sort of Federal support. You can't look at a vocational training program and not recognize that somewhere along the line Federal policy has been involved in recognizing the value of those investments that we make in our communities.

I work in parts of Appalachia, but I also work in the Mississippi Delta and other parts of the Country, and while we have made those investments, there are still many communities that are, in a sense, waiting for their investments, and so I look forward to the Committee's work in the coming years to make those needs realized.

I am going to focus my comments really on points I think are critical when you think about the work ahead, and I am going to think about them in terms of how to focus attention.

The first that I recognize, in working with Federal agencies, is that economic development has traditionally emphasized the creation of jobs through, in large measure, the provision of infrastructure. That has had a huge impact and now the time has come to think about what we add to that to make America a competitive and creative economy in the 21st century. The bottom line is we need to integrate what we do. Right now we work at different agencies over different programs, and there is a great degree of independence and there is a lack of integration. It makes it difficult for communities to use programs; it also makes it difficult for communities to recognize resources.

We need to focus on strategy. The United States is somewhat unique, at least in my experience traveling around the world, in that we don't think strategically about economic development. We do it more as a process, but we don't really think about a strategy. And I can think of countries like Spain or Britain or Japan where, at the very highest level of government, it is about what is the country we want to be and we work back from that perspective. And I think we need to think about that as a strategic approach to future economic development.

We need to think about economic development not as a county-by-county activity, but as an activity that is done on a regional basis. While the ARC or the Mississippi Delta stand as examples of regionalism, regionalism is a practice that needs to be implemented across the Country, and the reason is because economic activity does not stop at the borders of counties. Economic problems do not end at the city lines. Economies are increasingly regionally developmental, and we can use the regional scale as a basis for performance.

We need to also think about planning. One of the most important elements of the Economic Development Administration's practice over all these years has been the fact that it has instituted in communities the notion to plan, the fact that you just don't decide to do something without some idea of what the problem is and what the cause and the consequences are. There is not enough emphasis in the available funds today for planning, and yet communities are facing a whole set of new realities that they are very ill prepared to manage. So we need to think about how to strengthen the planning function.

We need to think about cooperation. Cooperation is easy to say; it is harder to do. When it is all said and done and resources are scarce, communities find themselves in competition, and while they may speak as if they are working together, often they find themselves very far apart. So we have to have programs that really reinforce and facilitate cooperation. In some instances, because we don't know how to do it very well, we actually may have to mandate it.

And then, finally, my last comment focuses on opportunity. The future of the United States is very much tied to the possibility of an energy security potential. Right now, the United States' renewable energy industry is not globally competitive. Countries from other parts of the world are far more well placed to be the global leaders in renewable energy technologies. The rate of growth in renewable energy industries—solar, wind, biofuels—are 25 percent per year for the last five years. So it is a situation in which the potential is enormous to generate jobs, to generate new technology and capabilities, and to create regional integration.

We need to have leadership to do that. It is one thing to say we should have new energy capabilities; it is another to actually see it occur in a coordinated and an integrated and a regional fashion. So I see that as an opportunity that this Committee could take leadership on and to really drive the idea of energy security home through the process of economic development.

Ms. NORTON. Thank you very much.

Actually, I will leave it to you as to who is next. Would you like to be next Mr. Pages?

Mr. PAGES. Thank you Madam Chair. Chairman Oberstar, members of the Subcommittee, I appreciate the opportunity to appear before you today.

My name is Erik Pages. I am President of EntreWorks Consulting, which is a private economic development consulting firm based in Arlington. I am going to speak to you today based on my experience running this firm, where we have had clients in 28 States, so we have had the distinct honor and pleasure of seeing economic development in the grassroots all across the United States. I also have experience serving in the EDA, so I have Federal experience working in economic development as well.

I am going to focus my remarks today on how the Federal Government can help incentivize economic development in rural America, so I am going to exclusively focus on this. This, again, will be based on my experience as a private consultant, but also I serve as a Senior Fellow at the RUPRI Center for Rural Entrepreneurship, so I have some experience from that perspective as well.

As Subcommittee members certainly know, rural America faces profound economic development challenges. The last few decades have seen an unprecedented flowering of wealth, innovation, and entrepreneurship in the American economy. Unfortunately, a lot of this wealth and innovation has bypassed rural America. If you look at recent research, 10 percent of American counties account for three-quarters of the Nation's job growth in the last decade, between 1993 and 2003. Eight of those counties are located in rural America. So the vast majority of innovation and job growth in the American economy is occurring in suburban and urban settings. So there is a significant challenge facing rural communities.

What is the solution? Well, the solution, there is no one-size-fits-all solution for promoting economic development in rural America. In fact, it is pretty hard to develop a single monolithic definition of a rural community. Jackson Hole, the Pine Ridge Indian Reservation, the cornfields of Iowa, the Mississippi Delta, all of these kinds of communities are rural, yet they have very vastly different situations.

So each community's solution is going to have to be unique. It is going to have to be locally generated, locally designed, locally driven. But I have seen it in my practice and I have seen throughout my career that economic development investments from the Federal Government can help incentivize and promote innovation for these small towns and rural communities.

Now, what can the Federal Government do? What should be the appropriate Federal role? Well, again, no economic development strategy is going to succeed through Federal investment alone. Leadership has to come from the grassroots. Local leaders must recognize the need for change, build partnerships to succeed with change, and they are going to have to do it themselves. They are going to have to be the leaders in terms of development and implementation of these programs.

However, given the financial and the demographic challenges facing many rural communities, Federal investments are needed to help, and I believe that Congress must assume a more prominent leadership role in this effort. The past decade has witnessed a serious erosion of the Federal Government's ability to support local and innovative economic development strategies. We need to reverse these patterns and begin making real and sustained investments that help empower local communities, and I will leave you with a few recommendations that I think the Subcommittee should consider.

First is the simple one, to continue to support Federal investments in economic development. And I know most of the members of this Subcommittee support that position. As you know, many of the key Federal agencies, such as the EDA, the Small Business Administration, have faced serious budget cuts in the past decades. At a minimum, the Committee and the Subcommittee should support efforts to maintain EDA's budget at the current level, $284 million, and perhaps even consider an expansion of these programs. Other programs that you might consider for expansion would be programs that support stem education, science technology, engineering and math, as well as some SBA programs such as the small business development centers and micro loan programs. And I would be more than happy to discuss any of this during the Q&A period.

Another opportunity to support rural development will occur outside of this Subcommittee's jurisdiction when we debate the Farm Bill this year. There is certain to be in the Farm Bill major discussions of new strategies for empowering or innovative approaches to rural development. I would encourage all of you to actively become engaged in that debate over this year's Farm Bill. It is a tremendous opportunity to energize innovative rural economic development strategies.

The third strategy—and I would follow Ms. Glasmeier on this a little bit—is to support regional approaches. And, again, this can take multiple forms, such as support for regional development authorities such as the ARC, the Delta Authority, as well as new proposals such as Congressman Michaud's Northeast Regional Commission and other efforts such as the Southeast Crescent Authority. Actually, some of the more recent programs that the Administration has been involved in have done a very good job in terms of energizing regionalism. In particular, I would encourage you to take a look at the Department of Labor's WIRED program, which has done quite a good job of encouraging regional collaboration.

And then, finally, I would just throw out three other quick ideas that are perhaps somewhat counterintuitive in terms of supporting rural development strategies. First is to encourage and support new immigrants into our economy. We are seeing a massive influx of immigration into rural communities, and these new immigrants are going to be the entrepreneurs of our future. They are going to be the drivers of rural prosperity in the future, and we need to support these new Americans as they begin to start and grow businesses and create jobs and create prosperity.

I would also second Ms. Glasmeier's comments about supporting energy R&D. Investment in alternative energy R&D is also an investment in rural development, which is well poised to prosper in this emerging cluster.

And then last, but not least, I would encourage you to consider expanding support for new kinds of infrastructure, particularly broadband. Broadband is the highway of the future. I know it sounds cliche, but it is going to be the driver of economic development for rural communities in the future. They need to be on par with Metro and suburban areas in terms of deploying broadband.

I will stop and I look forward to your Q&A, and thank you for the opportunity to appear before you.

Ms. NORTON. Thank you Mr. Pages.

Mr. Reamer.

Mr. REAMER. Good morning Madam Chair, Chairman Oberstar, Congressman Graves, Congressman Mica, and distinguished members of the Subcommittee. I appreciate your invitation to speak today.

At the Brookings Institution I examine the Federal role in promoting regional development and in producing the economic data needed by public and private decision makers. I was a development consultant for many years and EDA was a frequent client.

For some time, the U.S. economy has been undergoing an often exhilarating, often wrenching restructuring process, one that has transformed regional economies across the Nation and led to major geographic shifts in jobs and income. While some places have emerged in better shape than others, none has escaped the pain and the uncertainty of this process.

We are in a world dramatically different than that of 1965, when Congress created EDA. Then the Nation appeared to have a stable economic structure with well understood roles: Detroit for cars, Hartford for insurance, Houston for oil, and so forth. Economic development was seen as remedial work for places left behind in the post-war boom.

In 2007's brave new world of opportunity, vulnerability, and uncertainty, regional development agencies have created and implemented a diverse array of strategies. However, these usually have one element in common: seeking to create defensible market niches that provide high value-added products and services. Defensible niches are ones that cannot be easily replicated in other locations. For example, Boston, San Francisco, and San Diego have very strong positions in the biomedical industry, and Louisville and Memphis have similar positions in air freight. Value-added is simply sales minus materials. Higher value-added usually means higher wages.

Creating and sustained high value-added defensible niches requires ongoing investment in a wide array of regional assets, such as innovative capacity, entrepreneurial base, workforce, business networks, physical facilities, infrastructure, and venture capital. This is a highly complex process and not easily achieved.

In light of the ongoing economic restructuring in this Country, I recommend that the Subcommittee consider legislatively broadening EDA's mission from aiding distressed regions to facilitating the competitiveness of all regions. In a widespread, constant restructuring process, all regions can benefit from some form of support. Moreover, the Nation's competitiveness is very much a function of the competitiveness of its various regions. Thus, Federal regional policy becomes an important component of national economic policy.

EDA was created on the assumption that depressed regions lacked the resources to provide the tangible assets—roads, industrial parks—necessary to attract industry. In 2007, regional competitiveness is less a function of tangible assets than of intangible ones, the ability of firms to be innovative and intelligent and entrepreneurial and effectively battle in an intensely competitive marketplace.

The new role of regional development organizations is to see that firms get access to the softer assets they need to develop these qualities and to prosper in the community. To carry out this role, development organizations at the regional level need access to current accurate information about the region's economic performance and structure, the expertise to create and implement a realistic regional vision for defensible niches and a roadmap for achieving that vision, and knowledge in a diverse set of realms such as workforce development, technology transfer, physical infrastructure, including, as Mr. Pages said, telecommunications, entrepreneurship, and venture capital.

To fulfill the broader mission I laid out earlier, I suggest that EDA carry out a series of information-focused activities which support development agencies in this role. In particular, I suggest that EDA see that Federal statistical agencies produce the type of economic statistics that regional development organizations need, greatly increase its support for economic development research in order to better understand the dynamics of regional economies and what it takes to be a successful development organization, support electronic peer-to-peer networks among development practitioners that facilitate access to learning and effective practices, and utilize State economic development departments as mechanisms for providing expertise and support to regional agencies. State economic development departments are large enough to have economies of scale in delivering services and yet are close enough to the ground to be able to provide hands-on assistance to regional agencies. Lastly, I would like to see EDA provide a series of online references and analytic tools for economic development practitioners. EDA began to explore the use of such tools but has stopped.

The cost of these various information tools is remarkably modest, a small fraction of EDA's overall costs. Low costs and nationwide accessibility mean that the return on the Federal investment on information tools would be quite large. A reformulated EDA would continue its grant programs for distressed regions. The proposed information focused activities would be of significant additional help to such regions.

In its proposed new role, EDA would require a different skill set and culture. Staff should have hands-on experience in the new wave of economic development. They would need to know how to advocate for the development community before other Federal agencies.

As it is difficult to transform the agency as currently organized, I suggest the Subcommittee consider chartering EDA as a quasi-governmental organization. For similar reasons, many States have moved their development department outside of State government, and Congress might consider a similar step.

Thank you for the opportunity to speak, Madam Chair. I look forward to any questions you might have.

Ms. NORTON. Well, let me thank all three of today's witnesses for very intriguing testimony. Let me begin with a couple of questions of my own.

Forty-five, 50 years ago, in fact, until recent times, I think, Ms. Glasmeier, indeed, the statute itself makes the link to development and jobs, and, indeed, at that time, in that age, if there was a recession, typically the country looked to infrastructure, because you always need infrastructure improvements, and at the same time jobs, of course, came forward. Infrastructure continues to be vital in both aspects. But 21st century infrastructure turns out to be as much a new technology infrastructure, and one would say, or one could say that it might reduce jobs, rather than create them, the way there is an automatic link between physical infrastructure and jobs. And, indeed, for sure, having a strong back or knowing a craft may not be enough to get you a job. More expertise, fewer jobs may be the wave of the new technology infrastructure in the global economy.

I wish you would address that possibility as we look to late-arriving regions that are competing not in the old economy, but in a brand new economy.

Mr. PAGES. Well, Madam Chair, I think my primary comment is that I think you have hit the nail on the head in the sense that we are still using old metrics in the field of economic development. We clearly know that jobs is not the only thing to count, yet we still are kind of caught in the old system; we still rely on jobs. Clearly, the future of economic future is not about job creation, it is about wealth generation, and we need to look at new ways that we can measure wealth.

As I think you sort of noted implicitly in your comments, what is more important is a good job that pays well, that requires a lot of skills and has a lot of spillover effects tied to it is more important than just any job. And it really is more important that we think about wealth creation, and the way we create wealth is through new businesses, through fast growing businesses, and we need to think about new strategies that build assets in that kind of way, that focus on creating wealth, as opposed to just creating jobs.

Ms. NORTON. Ms. Glasmeier, did you have something you would like to say to that?

Ms. GLASMEIER. Yes. I would like to continue Mr. Pages' comments and say that we need smart firms. And I would say my own research tells me that American firms, in some degrees and in many places, are smart. But a lot of them are not smart and a lot of them have what I would call lifestyle firms: they work in their business to make enough money to have a good life, to send their kids to collect. They are not thinking about what the internationalization of the economy means unless it knocks at the back door of their factory and announces itself as you have just lost this account or business is declining.

In general, I would say American corporations, or firms in particular, rather than corporations, because that sounds like big organizations, since we are such a large economy, it has been easy to think of economic opportunities in the business community from the perspective of what goes on in the United States, and not as much being concerned about what is taking place outside the U.S.

I would argue that in addition to what we think in terms of the need for infrastructure, for the change in the skills of workers, that we need to have our businesses be strategic. They need to be self-conscious. They need to realize that the world out there is no longer something that stops at the border, but that is completely pervading our Country. And that calls for a series of programs and interventions that we only see in very few places and only in experimental forum. So that requires taking on a set of educational processes and practices that we have only begun to understand. But I see a real issue associated with our firms being competitive.

Ms. NORTON. Let me ask one more question before moving to Mr. Graves. In this hearing we are stepping back and trying to look with fresh eyes at everything. It seems to me that includes looking with fresh eyes—and all of you have alluded to this in one way or another—the whole notion of regional economies in the first place. I was particularly interested when Mr. Reamer talked about defensible market initiatives. It is hard to think of countries having a niche any longer. We all live in regions; we prosper when the region prospers.

But these regions don't operate within States any longer. These regions don't operate within a Nation any longer. These regions operate within a world economy. And, thus, it is one thing to have developed the old Northeast regions when, in essence, one region was competing with another. It is quite another to advise an underdeveloped region how it should develop in the 21st century.

I am wondering if there is any defensible market niche, if there is any coherent regional notion in the world economy today that is not resource-based, for example, based on natural resources in a particular economy. You could understand that niche could—might, I should say—survive in an international economy. Even human capital now crosses all lines.

So I want us to look at, when we say regional economy with underdeveloped regions who depend often on the Federal Government for whatever expertise they will get in strategy and planning, how the whole notion of region as a basis for Federal economic investment can be not only defended, but can be used to assure that we are addressing the real needs of those regions so that they will survive for some period of time, at least the period of time that one might expect given the investment.

Mr. REAMER. Madam Chair, very good points. A defensible market niche does not mean that you are assured that you can exist, but you have a better chance, once you have leadership, of maintaining that. So a place like Silicon Valley cannot be easily replicated elsewhere, but it has to stay on its toes constantly. There is an incredibly effective regional entity called Joint Venture Silicon Valley that has worked for several decades bringing together regional leaders to make sure they keep their competitive edge, and that group really has been on the cutting edge of how a region can work together to maintain its competitiveness.

So several challenges here. One is that regions are not political entities; regions are typically made up of a large number of political subdivisions. How do you organize regionally to make decisions to develop consensus when you have four cities, 20 counties, all with political leadership?

The second point is that, echoing my testimony, I think an important element of EDA's role now, as compared to 40 years ago, is helping regions build the capacity to create a defensible vision and a roadmap, that it is not something that is taught in graduate school. There are hundreds and hundreds of experiments around the Country about how to do this, and part of EDA's role is to keep tabs of what is happening around the Country and help regions share information learned from one another; collect, codify, make explicit that kind of information so that regions in Nebraska and regions in North Dakota and regions in Missouri and regions in Pennsylvania have the benefit of learning from other regions.

Ms. NORTON. Mr. Pages?

Mr. PAGES. Yes. I would just add that, particularly from the rural perspective that I was talking about in my remarks, I mean, the reason we talk about regions is they generate scale and they generate ambition. Small communities, rural counties cannot have all the resources that a business needs in their community, there is simply not enough people; it is just a numbers game. By broadening yourself out as a region, you can get all of the resources in that broader region that a business needs to succeed. It also broadens the vision of the businesses to think it is not enough for me to go sell, I am a D.C.-based business and I do business in Maryland or I do business in Virginia; I need to sell globally. And a region broadens the perspective there.

And what I have learned from my experience is that communities won't come together, a county and a city or two counties won't come together unless they face a tremendous crisis or a tremendous opportunity. We don't want them to face a tremendous crisis. The role of the Federal Government is to generate those kinds of opportunities. You see them through EDA grants or I referenced the WIRED project over at the Department of Labor. This has forced people to think regionally, to come together around an opportunity of a catalyzing Federal investment that will force them to do things differently. That is what we want EDA to be able to do, to encourage communities to do this before a crisis hits.

Ms. NORTON. Yes, Ms. Glasmeier.

Ms. GLASMEIER. You made the point that increasingly it is not about competing in the Nation, it is actually competing internationally, and yet most economic development ends up being one community competing against another community. If there was a way in which we could change the manner in which we describe what is going on and what the problems are, and allow places or help places understand that they are not competing against each other, they actually are competing with the outside world, then you might be able to foster more cooperation and you could allow—and then places could actually see what their own individual advantages are.

Because when you get away from the burden of thinking it is your neighbor who is going to steal the factory that is coming down the road, to recognizing that factory might not come here if your nation is not, overall, competitive, then you can begin to see how communities could start imaging that cooperation has some value. If we all think we are in it together, as opposed to us all individually operating as if we are going to lose something, then we might actually be able to plan some sort of future. But that has to be reinforced and, in a sense, policed within a policy framework because, otherwise, communities are simply going to work on the basis of bigger-than-neighbor policies.

Ms. NORTON. Thank you very much.

I will go to Mr. Graves now.

Mr. GRAVES. Thank you, Chairman Norton.

I tend to look at things a little bit simple. In fact, Ms. Glasmeier, you pointed out some very basic problems with looking at this regional concept. I come from a little tiny town in Northwest Missouri—I still live there—population 2,000. I will kind of lay this out for you. We have Omaha, Nebraska that is 75, 80 miles to our north; we have St. Joe, Missouri that is 70 miles to my south; and we have the Town of Merryville, which is about 40 miles to our east. Merryville has a population of about 10,000.

I look at regions as a few counties. But you can't get those folks to talk to each other. If the Town of Merryville has got a hot tip on a company or the Town of St. Joe has a hot tip on a company, they are not talking to the little towns out there about how they are going to be able to add to this process. They are not talking.

And my question to you is so how do we get them to change this paradigm—because they are not going to—they aren't competing against each other? The reality is they are competing against each other. The smaller communities, they can't afford consultants, they can't—for heaven's sake, a lot of them don't even know how to fill out some of the paperwork, they don't have somebody with the experience to fill out the paperwork to apply for some of these wonderful opportunities or proposals or projects or programs that are out there that the States and Federal Government have to offer.

But we can't even get a town, some towns to talk to the outlying county, you know, outside their city limits, let alone go across county lines. And being where I am, seven miles from the Iowa border, you know, that is just like a wall that is thrown up between the two States, and then you have States competing against each other too.

So I would be very interested in knowing how we break through that realistically, not theoretically but realistically break through that, and even what sector can we look at. Do you have a specific sector, you know, that might work or something? I would be very interested because I just don't see that paradigm change. All of you, I would appreciate your comments.

Mr. REAMER. EDA has a program of economic development districts, and I am not fully familiar with it, but I think EDA strongly encourages, particularly in rural areas, that counties join together and form a district in order to be eligible to receive EDA funds. That is certainly one mechanism for bringing together counties in rural areas to talk to each other and plan collectively.

Mr. PAGES. I would just add, Mr. Graves, I mean, this is the classic dilemma we face in economic development every day out in the field, and, you know, I like to step back a little bit and think about, you know, we often talk about the three-legged stool of economic development: you can take business from elsewhere, you can keep the business as you have, or you can grow businesses. You are largely talking about business recruitment and business attraction, which has been the paradigm for economic development for the past several decades. To me, that is a zero sum game, and it is going to be very difficult to get two States to agree to cooperate on that issue, or two counties or two cities.

So I say let's not even fight that fight. Let's focus on homegrown economic development strategies that try to increase startups, that try to increase fast-growing businesses that are based on the assets in the community. So, again, it comes back to this issue of the distinctive niche. What is the distinctive niche in your community? What are the businesses that the current residents of that community can develop?

If you sort of take it away from the zero sum game to a game like that, where it is really about each community strengthening itself, again, I am not going to sugar coat this, people don't just have this "aha" moment when you make this pitch, it is still challenging. But it is much simpler to bring people together around business retention or around a business growth strategy as opposed to around a business recruitment strategy. And so that would be at least one strategy I would suggest to create these kinds of regional alliances.

Ms. GLASMEIER. One of the reasons that it is easy to do this competition is because data is configured in a way that we can draw boundaries, and so counties have their own boundary and data come in that package, and you have two of them and they don't have to share and they don't have to look at one another because they have their own packets of data. We have the ability to look below the county level, and what we find when we look below the county level is that most places are these little spots of development.

If we were to ask places to begin to look beyond the county boundary and to say draw us a landscape of economic opportunity that takes into account your neighbors and create small incentives for local areas to learn how to do this—because it is not something that they know how to do naturally, but the information is out there; they have the extension offices that are there to help them figure out that type of view—then you may actually have places that are bigger actually looking at these smaller places and saying, well, gee, you know, you are not actually competing directly with me and you might actually have people who work in my area, so that they start to realize that they are all in this little net together.

The second issue is just to make incentive programs. For example, in the case of renewables, the Appalachian Regional Commission just put together a blueprint on energy. We realize that there is not enough money to do much of anything in a packaged way, for the Commission to come out and say here is a lot of money to go after this. So what they are thinking, instead, is how can they start conversations that are within geographic areas that make sense for the types of renewables that can be done and what are the institutional actors in these places that actually could profitably work together.

So you are talking about providing resources for conversations that lead people to say, gee, we are next to one another, it makes sense to work together on this, and it doesn't set up a competitive situation because the problem can't be solved on a point basis; it can't be one community that gets everything, it just won't work that way.

Mr. GRAVES. Thanks, Madam Chairman.

Ms. NORTON. Thank you very much Mr. Graves.

I want to go to Mr. Michaud, but I do want to say, because I think Mr. Graves asked the question that small communities across the Country are all asking, I just want to suggest an analogy based on synergy from, yes, a big city, but the synergy analogy, I think, works.

The District attracts tourists because the great monuments are here, and it has produced a tourist economy here. Well, Virginia understood that not all of the tourists wanted to stay in the expensive hotels in the District of Columbia, so if you go to Virginia or Maryland, you can get yourself a cheaper hotel. Half the people who come here, of the 20 million people, are school children. That means that Virginia and the District and Maryland work together on tourism. Even though it is the basis for our economy, they get enough spillover or synergy so that we are all in it together, as it were.

Mr. Michaud?

Mr. MICHAUD. Thank you very much, Madam Chair. Before I begin, I want to congratulate you for becoming Chair of this Subcommittee and want to thank you for your work over the past Congresses dealing with economic development. I really enjoyed working with you and, at the time, Chairman Shuster.

I want to congratulate Mr. Graves and look forward to working with him in the upcoming Congress.

Just a couple of quick questions.

Mr. Pages, I read your opening statements and your answering of questions. I agree with your assessment on things that are going on. One of your comments you made, that there is no cookie cutter type of approach when you look at regional economic development commissions. I agree with that wholeheartedly, being involved in the Northeast Regional Commission.

My question to Mr. Reamer and Ms. Glasmeier is do you agree with that approach as well, that each region is different and there should be a different regional approach as we look at the different regions around the Country?

Mr. REAMER. Absolutely. I once wrote an article called “Custom Fit, Not Cookie Cutter.” The strategy for each region comes out of its own intrinsic set of assets. And back to the point about defensible market niches, that comes out of the particular unique set of assets in that region.

Actually, one of the dangers in economic development is around what I call magical thinking. You might remember 10 years ago every region in the Country wanted to be the next Silicon Valley, so regions were trying to become something that they could not be. And part of EDA’s role, I think, is to help regions be realistic and develop their own strategies that fit their particular and unique circumstances, and an important part of that is actually the Federal statistical system that Ms. Glasmeier just alluded to, that we need data, regions need data to understand what their distinct assets are, and a key role of the Federal Government is providing those data; otherwise, regions are flying blind and they are susceptible to magical thinking.

Ms. GLASMEIER. I spent a sabbatical last year up in New Hampshire and I wandered around in your region, so I have some sense of what some of the challenges are. And I also am from sort of the north central part of Pennsylvania in which we had an industrial economy and it is pretty much gone now. And I think we need to distinguish between places which are development-ready and places that have yet to be developed, because those are two different types of circumstances, and, yes, they need individually tailored programs, but they also have some common problems.

So for example, in the southern tier of New York and the northern region of Pennsylvania, we have a former industrial economy with a declining infrastructure, a workforce that has been made moribund, and we are actually attracting immigrants who have lower levels of education than the base population. These are people that went away and are coming back, and there is really nothing for them to do.

That is quite different from what you find in Central Appalachia, where basically that is a part of the Country whose economy has been inactive for a very long period of time. So we have to deal with those base conditions and, in a sense, make sure that places are development-ready, that there are certain minimum requirements. I mean, the old mill regions have an infrastructure which is corroding over time.

If the investments aren’t made just to stay where they are, it is going to be hard to put together a regional strategy. So we have to look at places and realize that there are different economic histories that lead them to the place where they are at, and having an individual approach is correct, but there has to be minimum standards; otherwise, you are not going to be able to develop off of that.

Mr. MICHAUD. My second question is, coming from the State of Maine, clearly, it is very rural, and at times you have economic developers in conflict with environmentalists. What role do you think resource conservation should play in economic development, particularly in rural States?

Mr. PAGES. I think that for many rural communities the future is in resource conservation, particularly in communities that have scenic amenities or have some proximity to a Metro area. I mean, the trends in economic development, the exciting things that are happening in rural communities are really around those kinds of issues, around tourism, agrotourism, sustainable fuels, retiree attraction—which is really sort of a tourism kind of strategy as well, all tied to the scenic beauty and the amenities in rural communities; and you have to say you want to build off an asset.

Well, for many communities in Maine—and I know Maine very well, sir—it is one of the most beautiful places in the Country. That is the asset for many Maine communities, is that it is so lovely up there. And to protect that asset is going to be the driver of economic growth for many communities in Maine and elsewhere across rural America.

Ms. GLASMEIER. One of the challenges that rural places like the northern part of Maine face is the lack of telecommunications access. If you want to have a vibrant economy in a rural place which is sparsely settled, there needs to be some connectivity. And we can see, in work that we have been doing in Pennsylvania, that you can have tourist highways, but if the broadband interconnect isn't there, then the ability for people to really be a successful tourist is diminished. So one of the challenges to take advantage of natural assets is going to be infrastructure of the future, which is still nascent money of these locations.

Mr. REAMER. I want to reiterate a point I made earlier. I think because rural areas around the Country are struggling with this issue, how to do this, that EDA has a role in collecting the experiences from around the Country and finding a way to share them so people are not having to reinvent the wheel in Maine when someone has a similar experience in Oregon.

Ms. NORTON. Mr. Walz?

Mr. WALZ. Well, thank you, Madam Chair, and thank you to all of you for taking the time to come to us today and share your insights on this critical issue.

I come from Southern Minnesota. I am truly at the heart of the biofuels. I have been driving a van for many years that is fueled by 85 percent corn; and the cornfield is right there, the farmer-owned co-op 100 percent is right next door to it, and the station owned by the co-op is right there, you can see it all within a mile radius. We have come a long way in that and I agree with Mr. Pages on this, there has been some great entrepreneurship in doing this.

The efficiency of the biofuels, that industry knows that it is not the savior when it comes to energy, but they do know that they started the conversation and moved us forward. They also know that, compared to the rest of the world, as Ms. Glasmeier noted, we are in our infancy on that, and I think one of the reasons is this idea of the regionalism. And I must confess I also am a geographer and trained in that, so I talk regionalism a lot. But I think Mr. Pages made a good point.

My question to you is, on this, I believe that we are doing those things as entrepreneurship. I do believe we are creating the new base of jobs. I have seen this absolutely save small communities out there in what they are doing. My question to you is we have some of these great regional authorities to help with this because the infrastructure is a huge issue, from broadband to rail to roads, and we see the ARC—and, granted, grossly underfunded and Delta and things like that—but the Northern Great Plains Regional Authority, we hear all this great talk about how we are going to become the Midwest is going to be the new Mideast when it comes to production of energy, but the last Congress made it easy for me to remember how much the commitment is to that: zero dollars for that regional authority.

And my question to you is is that regional authority, in your opinions—and I have listened to you here—can that help us now that we have built that groundwork infrastructure on entrepreneurship, we have started to get the investment and people are ready, but they are being hampered by the very things you said, the border with Iowa and those type of things.

So I am not sure who I am addressing this to. I guess I am just asking you. I think we are on the verge of something incredible in an economy, and it feels like we are hampered by this.

Thank you.

Ms. GLASMEIER. Thank you. I guess what I would say is I think that there are some lessons that can be learned from the other regional commissions. At the same time, I don't want to make it seem like they are the answer to everything, because I think that we do have these really large challenges. If the national economy isn't growing vibrantly, then that is a problem. If businesses are not generating jobs that are skill matched with what the citizenry is capable of doing, then that is a problem.

But recognizing that those are real sort of structural constraints, I would say that we have to think in terms of development-ready. To what extent are these places that we might describe as regions actually development-ready? One of the things that is a part of the legacy of the Appalachian Regional Commission was taking a region that was truly not developmentally ready to a point where now you can actually initiate economic development and it actually works.

I think the Midwest is challenged by different sets of issues than what we see at the ARC. At the same time I think issues such as population-out migration and essentially infrastructure that is not being reinvested in will act as a continuous challenge in attempting to make that a region as a whole. But how do you keep people in the region and how do you formulate new entrepreneurial activities seem to me to be, you know, underlying what that regional enterprise could be a part of.

Ms. NORTON. Mr. Cohen.

Mr. COHEN. Thank you Madam Chairman.

I guess to ask the group, or whomever wants to offer help, how do you define economically distressed community in terms of getting economic development agency grants?

Mr. REAMER. If you hang on a second, I think I have the legislation here. It is in the legislation. There is a series of criteria. I think you have to have a per capita income less than 80 percent of the national average and an unemployment rate above a certain amount. You have to have any one of three criteria.

Mr. COHEN. And how is that measured, is it by the city or could it be—for instance, you studied Memphis, as I see in your remarks. Memphis has a lot of economically distressed areas. It may not meet that definition, but there are parts of the city that do, and there are parts of every inner city that does. Do those inner cities that have that need, do they qualify or are they disadvantaged because of the suburbs that raise their overall economic level?

Mr. REAMER. Actually, my guess is that it is the political subdivision, but I am not certain.

Mr. COHEN. Madam Chair, if that is accurate, is there a way that we can look at the definition? Because I think the great—I represent an inner city, as the Chair does, and there is no place in America—I know the rural areas need help, but there is no place that needs more help than inner city America, and it has been neglected for 150 years and gone through a lot of Jim Crow, really, to get to this point. They have been neglected.

And Katrina exposed it, but it has always been there. And I think probably in 1965, when this program was started, Lyndon Johnson understood the need for it, but it has kind of been neglected. And I would think that we need to find a definition of economic distress that incorporated inner cities, even if they have got burbs around them that are burgeoning, that the inner city that needs that help is available for that grant program.

Mr. REAMER. Congressman Cohen, I actually found the legislation and it says a small area that meets one or more of the criteria of poverty or high unemployment and lies within a larger community in less economic distress shall be eligible without regard to political or other subdivisions.

Mr. COHEN. So that would include the inner city.

Mr. REAMER. Yes.

Mr. COHEN. And I have noticed, Madam Chairman—I appreciate your understanding and expressing about the global economy and not being regional, but as Mr. Reamer probably understands from his study, Memphis is the center of the Country, and if we concentrate everything there, it will concentrically go out and help all.

[Laughter.]

Ms. NORTON. I understand perfectly.

[Laughter.]

Ms. NORTON. Mr. Shuster.

Mr. SHUSTER. Thank you, Madam Chairman.

My question, following up with what Mr. Graves was talking about—and he is absolutely right, it is very, very difficult to get counties—I am in a very rural area, as I believe Dr. Glasmeier knows, south of State College—it is very difficult to get them to communicate, although they have started to communicate. And I wonder if you had come up with any ideas on how do you—especially in rural areas, or in rural areas, because I think it is a lot easier in urban areas to find that center of gravity, but in rural areas do you have any ideas on how do you put together regions or how do we go about saying if we are going to change, reauthorize EDA to encourage people to operate regionally, do you look at the resources, whether it is people, whether it is income levels, their tax base? I think you can find centers of gravity.

In my district, Altoona is the center of gravity. Over the mountain is Johnstown. Well, quite frankly, they both believe they are centers of gravity and they are never going to—well, I shouldn't say never, but they are rarely going to be able to cooperate. So do you have ideas on different measurements or different ways we can put into law that you need to come up with this is the criteria for regional cooperation?

Mr. PAGES. I guess I am not sure this is something that you would legislation, but from my experience in practice is that you have a different region around different centers of gravity. Every community will have a different region around tourism than it will around business, than it will around commuting patterns, and my only criterion in terms of Federal investment would be to require that these are regional approaches and then let the locals define the region. In some ways, you know, people will often ask how do you define a region.

I say what do the businesses think is a region? Or to give you an example from Pennsylvania, Central Pennsylvania, a lot of people say what is the Central Pennsylvania region? It is the Channel 8 viewing area, which you may know from Harrisburg. People say that is the region. So it is often unique things like that.

And I guess my experience is when you have squabbling counties or squabbling cities, squabbling political jurisdictions, is to start with the easy stuff, and the easy stuff is tourism or the easy stuff is youth engagement or, you know, try to slow the brain drain, strategies like that that are kind of, you know, less threatening to, you know, you are going to take the manufacturing plant that is going to move to my community.

And, really, it is just baby steps, you know, build regional perspective around safer issues and then move to more difficult issues. It is really almost like a marriage or dating between the communities as you bring them together, and you need to start with things that are going to be less threatening to the sort of the economic centers of the communities. Again, I mean, that is more impressionistic than ways you might legislate, but that at least is one perspective.

Mr. SHUSTER. I appreciate that, and I would like to hear from the other two, but just to point out to you that the Channel 8 viewing area is the other Central Pennsylvania. I am in the Western Central Pennsylvania.

Anybody else care to———

Ms. GLASMEIER. I would say that that economic development districts are a place to look to because that is an already identifiable unit and people do cooperate in that context. It is also the case that today we are in better position to use data spatially, to actually see what regions look like. So what Mr. Pages described in terms of tourism, you look at what the tourism economy looks like and you can look at it statistically. Now, we can't do it like surgery, but we can do it on a basis to give people some sense of it is not always beggar thy neighbor. Maybe it is, you know, we are not in competition, maybe if we cooperate. So it is by using information so people and places can see that they can work together, that is going to encourage them to work together. And you already have units of planning that have that mind-set anyway; to try to reinforce them and provide them with incentives to work with communities to cooperate.

Mr. REAMER. Three quick points. One is that money is an incentive, so if money is available only through organizing a development district, then that provides people with an incentive to cooperate.

Secondly, just for your information, the Bureau of Economic Analysis takes the entire Country, rural-urban, and divides it into regions. So you can look in Pennsylvania and see what that Federal agency thinks are regions and use that as an organizing tool.

Third point is I left each of you a packet of some examples of Federal statistical tools, one of which is a very innovative tool the Census Bureau has called On The Map, and you will see for your district, Congressman Shuster, you can map where people live in relationship to where they work. And as Dr. Glasmeier says, by giving people in a region a picture to show how they are interrelated, that in fact people live in one place but may work in another place, that that gives people a larger sense of who ″us″ is, broader than perhaps a more narrow definition.

Mr. SHUSTER. And a final question to Dr. Glasmeier. How would you grade Penn State's economic development efforts? I have talked to other members of the Pennsylvania delegation, and one in particular was talking about some of these universities—Georgia Tech I think was pointed out to me—and I don't know this for a fact, but that Georgia Tech has just been a great boon for its region. A hundred miles around where Georgia Tech is—I don't even actually know where Georgia Tech is located except in the State of Georgia—but they have done a great deal of technology transfer and caused some great things to happen.

How would you grade Penn State's efforts in technology transfer and what they have done to Central Pennsylvania? Because, as you well know, you go from Centre County down to Philipsburg or you go down to some of the other towns and it is Appalachia again; they are depressed areas that are within 30 minutes or less of what should be a hub of economic radiation.

Ms. GLASMEIER. Georgia Tech is a really good example of an institution that new 50 years ago that it was important that science and technology knowledge generated in an institution was distributed around the State. So Georgia really is quite unusual, and it is actually the Georgia Tech Economic Institute that has these operations outside of the metropolitan area of Atlanta, and what they provide is sector-specific knowledge and expertise.

At Penn State we don't have something that is organized around a sectoral approach. What we do have, which is true for every State in the Country, is you have a land grant institution like Penn State and you have your extension-related educators, and they are very well versed in economic development practice and knowledge of their communities, and they work in individual communities and you call them up, you got a problem—we just lost a plant, we need somebody to come here and do an economic impact study—and usually there is somebody on staff that can do that. That is certainly true at Penn State as well.

Mr. SHUSTER. So the grade you would give Penn State?

Mr. PAGES. You have got to give them an A.

Ms. GLASMEIER. No, I can't give them an A. I would give them———

Mr. REAMER. Isn't it pass-fail?

Ms. GLASMEIER. Pardon?

Mr. REAMER. Is it pass-fail?

Ms. GLASMEIER. Is it pass-fail? Right. That seems like the easy way out. I would give us a B.

Mr. SHUSTER. OK. All right, fair enough.

Ms. GLASMEIER. And I am a hard grader.

Mr. SHUSTER. OK. Well, I am probably a tougher grader than you are, so I won't tell you what my grade is. It is not a B, but it is certainly not an F or a D. But I would encourage Penn State to work with communities. As you well know, Blair County, which is to the south of Centre County, where I live, Mifflin County, all surrounding Penn State, and I have said Penn State certainly has the intellectual capital, but they just don't have the workforce, and that is where those counties around have great workforces that we need to be tapping into and working with them.

So I appreciate it. I look forward to maybe getting together with you, as I said, after this meeting sometime and talk about your ideas and what we can do to encourage that.

Thank you again, all of you, for being here.

Ms. GLASMEIER. I was just going to make one comment, which is I am working with the local development districts of the ARC, and we are putting together a program that would be used to try to convert firms from current practice to the capacity to work in the renewable industry, and that is obviously a regional approach that goes across the State, and it is working quite well.

Mr. SHUSTER. Energy is what you are talking about, renewable?

Ms. GLASMEIER. It is energy, but it is the idea, it is the LDDs that are working together.

Mr. SHUSTER. OK. Thank you very much.

Thank you.

Mr. REAMER. Mr. Shuster, can I also make a comment about technology transfer?

Mr. SHUSTER. As long as the Chairman says it is OK.

Ms. NORTON. By all means. By all means.

Mr. REAMER. Thank you. I did a study for EDA on the role of technology transfer and economic development, and I found that the rate of innovation, the rate of technology transfer increased dramatically the larger the city. Georgia Tech is in Atlanta, so places like Atlanta, places like Chicago, places like New York have much higher rates of tech transfer and patent formation and product development than do more rural areas. And there has been a lot of hope given to universities that are not in major cities, like Penn State, that they could produce the technology that would encourage firms to locate there. It is much more difficult outside of large Metro areas to do that.

Mr. SHUSTER. Thank you.

Ms. NORTON. Thank you. I must say, Mr. Shuster, I think a message before the end of the day will get back to Penn State.

Mr. SHUSTER. I hope.

Ms. NORTON. The chairman is going to come back. He hasn't had a round of questions. Let me ask a few while we are waiting for him.

I am intrigued, Mr. Pages, by your testimony that says that 71 percent of rural counties actually gained population during the 1990's. And I think it makes you wonder even yet again about what definitions we are using. Does that increase in population correlate with improved economic development, or are we really talking about "rural counties" in the traditional sense of the word?

Mr. PAGES. A very good question Madam Chair. What is driving that statistics of the increase in migration to rural counties are really several things. One is—I mentioned briefly in the testimony—new immigration, particularly in the Southeast and in the Midwest. You are seeing lots of immigrants moving to rural communities. You are also seeing some level of retiree migration, people moving to second homes or moving out of the big city to a more pastoral lifestyle is driving some of that.

I would say generally what you are seeing, though, is that the rural communities that are showing this in migration are becoming less and less rural. I mean, these tend to be counties that are located closer to Metro areas, so I don't know———

Ms. NORTON. But you say 71 percent.

Mr. PAGES. Right.

Ms. NORTON. That sounds like most of them.

Mr. PAGES. Well, you would get the communities in the outer ring of the suburbs here in Washington, D.C., many of them would be classified as rural and would show that increase.

But I think generally it is a very positive sign. At a minimum it is a reversal of a trend that has been going on for several decades, so I think if you are looking for good news about rural America, that is one very prominent piece.

Ms. NORTON. Mr. Chairman?

Mr. OBERSTAR. Thank you Madam Chair.

I appreciate the testimony of the witnesses, including that of Ann Markusen, which will be submitted and included in the record, and I hope her husband is doing well; he had a serious fall. Ann I have known for years and she is one of our premier thinkers on the subject of regional economic development and industrial economics.

You discussed, each of you, the upgrading of technology and the application of technology to economic development. In the SAFETEA transportation bill that we passed in the 109th Congress there was a provision allowing States, State DOTs to use the median right-of-way for fiber optic cable to serve underserved principally rural areas. That was our intent. It was my idea of making the median the REA of the Internet.

I don't know of any States that have yet moved to use that authority, although it is certainly out there and Massachusetts has expressed interest in doing so. I have talked with folks in Minnesota and I have spoken about this at various conferences, but it is something that you should look at as a means of stimulating the capacity of rural areas to compete in today's economy, commuting by Internet.

I listened with great interest to Mr. Graves' example of his hometown. I think many others of us on the full Committee and Subcommittee have that same experience, a small community with large population centers in reasonable distance but far away, and then what constitutes regional development. We have several regional commissions in addition to the Appalachian Regional Commission, and my experience with regional economic development commissions was largely in Northern Minnesota, Northern Wisconsin, and Northern Michigan with the Upper Great Lakes Regional Commission.

What I found as staff director for my predecessor working on the specifics of projects, communities applying, was how do you create and define a project of regional significance, one that is really and truly going to benefit all three States. And I think Mr. Pages is expressing the same thing. When you hear something regional, is it all going to be swallowed up by one big community? You know, the largest population center in my district is Duluth, it is 85,000 people. The Superior metropolitan area is 135,000, 140,000 people. But how do you identify a multi-State regional project?

Ms. GLASMEIER. I can think of one that comes up in the area of providing world health care and links broadband. Right now, individual hospitals may or may not have advanced broadband applications, and there are two factors that seem to limit the real high utilization. One is the age of the doctor, the extent to which the doctor population is over the age of 50 and not used to using computers.

I don't think you can do anything about that, but what you can do is you can link hospitals into a telecommunications-base network that allows them to share knowledge both in terms of the kinds of problems that they have, but also the access that doctors have to specialties that are beyond the local region. And that is not inconsequential when it comes to providing sophisticated medical knowledge that would otherwise require the person who happens to be in Duluth to travel to Minneapolis or maybe even to travel to Wisconsin or to some part of Michigan to get some care.

So there are ways in which certain kinds of existing functions can be coordinated in a manner. Then there is no sort of hub, it is a distributed system in which everybody has a potential to benefit.

Mr. OBERSTAR. Well, that is a very good example, and I can take it a little further. In, if you can imagine, Minnesota and the point that Minnesota goes out to Lake Superior and Duluth is sort of right there, and about 50 miles south is Moose Lake and about 150 miles southwest is Crosby on the other iron ore mining country, the Cayuna Range. A surgical practice at Crosby perfected amongst their practice the art of laparoscopy, the science of laparoscopy, microscopic surgical intervention. It is the least invasive and intrusive of surgeries.

So then they got about a piece of a satellite and they created another clinic at Moose Lake, 135 miles away, and they trained a doctor there in laparoscopy and installed a laparoscopy surgical suite at Moose Lake. So every day this surgeon performs laparoscopy with the team in Crosby through the satellite doing rounds and overseeing surgical work.

In addition, by the way, this team at Crosby established a similar laparoscopy practice in Haiti, and daily they work with a surgeon in the central highlands of Haiti and support a surgeon there who does laparoscopy.

That is regional. It is not multi-State. In this case it is international.

I would like you to think further about how we can help these newly created regional commissions craft a policy that will direct their funds to truly regional projects.

Ms. Glasmeier, in your remarks about renewable energy, we have great potential in this Subcommittee and its jurisdiction over Federal civilian office space, nearly 900 million of Federal civilian office space to equip Federal buildings with solar power. In fact, our Subcommittee is going to consider and then report a bill for floor action to equip the Department of Energy building, which was constructed with a south-facing wall, blank, no windows, to accommodate solar facilities—in this case I think, most likely, photovoltaics, and produce enough energy to run the building. We ought to turn the lights on at the Department of Energy with solar power and make it an example for the rest of the Country.

In fact, in this very Subcommittee, in 1977 a hearing was held on the use of photovoltaics in Federal office buildings to create, jump-start, if you will, stimulate a national photovoltaic industry and reduce the cost of electricity produced by photovoltaics from $1.75 a kilowatt hour in 1977 over a five year period reducing it down to 7 or 8 cents kilowatt hour, which was the industry standard.

Well, I introduced legislation, got it enacted; Senator Humphrey did in the Senate. Together we got this bill passed. It was funded during the last days of the Carter administration and then defunded by the incoming Reagan administration, and nothing has happened since then. It is time to reactivate.

Where is solar power so important? In rural areas. The U.S. Forest Service has weather reporting stations in remote areas that are operated by photovoltaics. The National Park Service does the same. NOAA operates weather buoys using photovoltaics that transmit. Our entire space program runs on photovoltaics, and on those long distance travels up to Pluto they use nuclear power. We can do that here.

And in rural areas it would be extremely important to develop these types of renewable energy initiatives. There is a very successful project on a dairy farm in the central part of my district, Hubb & Shield Farm, where all of the manure is moved by the minute into a digester where methane is produced; and the methane is drawn off, the digester scrubbed, run through a generator, produces electrical power from manure-generated methane that runs the entire Hubb & Shield Farm and has produced a million kilowatts into the rural electric grid. He has got 200 head of dairy cows. He figures that each dairy cow is worth a barrel of oil, because that is the equivalent of the electricity produced on that farm by each cow in the course of a year.

The same can be done with hog operations. I know Mr. Graves actively operates his farm and I know he can readily understand what we are talking about here.

I would like to get your thoughts about the role of the economic development representative, the EDR of the EDA structure. Have you given thought to the role of the EDR, the local grassroots-up implementation of EDA's programs?

And the background for this is that there is a restructuring underway within EDA that will remove the economic development representative from communities within the region and centralize the function into the regional office seat, Chicago or other similar regional offices, and operate the service of the EDR out of that central location. I would like to have your thoughts about that.

Mr. PAGES. Mr. Chairman, I had the pleasure of working at EDA during the early 1990's, when we had a more extensive EDR operation in place and, really, the EDRs were kind of the public face of the agency, and if you really wanted to know kind of what was happening at the grassroots, you would talk to the EDR. And when people thought of EDA, they said, oh yeah, Joe the EDR or Mary the EDR, and they really were our public face. And I think both the EDRs and the regional offices are critical, because EDA is different from other Federal agencies; it responds to the grassroots rather than says here is the solution and we will give you a grant. It says come up with some ideas, some innovative ideas, and we will do what we can to support you.

So you need those people that are out there in the field who understand what is happening———

Mr. OBERSTAR. And if I may interrupt you, the EDR is also the filter to tell folks, look, you have got a germ of an idea here, but it isn't packaged right, it isn't going to fit, it isn't going to work, some other place has tried it, it hasn't worked. He is the filter, or she, the filter to weed out that project.

Mr. PAGES. And I would agree with you 100 percent. In fact, you know, for many of these communities who have maybe one FTE or two people in total working in economic development as professionals, to spend a lot of time on grant applications that they are not going to be able to win is, you know, very inefficient use of their time. They have got very limited time and resources. So that screening mechanism is very important. For some communities it is better to get a quick no than to spend a lot of time doing an application. We don't count how much time, cost and resources go into these RFPs and into the grant applications. It is quite significant, and if we can help communities on that front, that is also an important contribution.

Mr. REAMER. I would agree with that. I think the EDR structure has been—my experience has been it has been very helpful to have these people on the ground facilitating the process.

In the information-oriented approach that I am suggesting EDA add to its current functions, I think EDRs would be important as well as a source of expertise to help local development agencies understand how to do their jobs better and as a way of collecting intelligence at a local level and bringing it back to EDA. I mean, this army of 50 people around the Country is a great resource for EDA to learn about what is going on on the ground, and it would be the starting point of a mechanism, as I was saying earlier, to share information across the Country about what works, what doesn't work, and EDRs I think are a terrific resource in that kind of effort.

Mr. OBERSTAR. I like your reference to the Army, except that the Army has been reduced to a platoon with the reduction in the number of EDRs, and about to be reduced further.

Mr. PAGES. I would just make one other final suggestion, if you would indulge me, Mr. Chairman, on the EDRs.

Mr. OBERSTAR. Sure.

Mr. PAGES. One thing the Subcommittee might want to consider is to cross-train the EDRs in to the offerings and the programs of other agencies, rather than just have them focus on EDA. You often see this with State regional reps for State economic development departments. Basically market all of the State programs, as opposed to just one program in the Department of Commerce or the Department of Economic Development.

Mr. OBERSTAR. I agree with you, and I think they should be, and in Minnesota our now retired EDR worked very closely with the State rural development agency of USDA and coordinated efforts to bring to bear the resources of both agencies on the needs of small towns.

There are many other questions I would like to pursue but, Madam Chair, I think there are some things I might submit for the record. I will yield back my time at this point.

Ms. NORTON. Well, if anyone deserves to ask questions, it is the man who started it all, and we appreciate that effort and the depth of your questions.

I just have a couple of questions that I would like to ask. One has to do with testimony we have received ever since I have been on this Committee, really impressive testimony that I cannot recall receiving in any other committee or subcommittee about very impressive results from leveraging private resources and, indeed, very impressive history of measurable outputs from the Federal investment.

We are in a period of, we call it here, pay-go. All of you, in one form or another, spoke about the underfunding of EDA. We are not going to see a big infusion of funds. I would like anything you could tell me about how we might better leverage small amounts of Federal funds to encourage the kind of proportionately greater private investment that is virtually the hallmark of this bill, and may be its only real future.

Mr. REAMER. In my testimony, I alluded to the power of information-based tools. I mean, the Government has several tools at its disposal to promote social change. One is money tools: grants, tax credits. Another is information. Money, by definition, is expensive; and information is relatively cheap. So, Madam Chair, in terms of levering private investment, private investors need data on markets to know where to make decisions, where to make investments, and the Federal statistical system is the primary source of data for governments and for businesses to make those investments; where to put a store, where to put a highway, where to build a school.

So I think in terms of bang for the buck in economic development, that a robust statistical system that really costs pennies per taxpayer has enormous, enormous payoff, that businesses and planning agencies, regional development agencies need those population statistics, need those statistics on jobs and income, need those statistics on the workforce to know where to make those decisions. And I very much encourage this Committee to be a strong advocate for a robust Federal statistical system because, again, for $25 million you could do a few things to expand the data resources available to regional developers and the businesses in their areas with remarkable payoff.

Ms. NORTON. Mr. Reamer, they look fairly broadly now. They look at educational-base, they look at cheap labor costs. They stop there and then they go on. Now, if there is some value added beyond that, I think you are right, the Federal Government is going to have to virtually teach business how to find it, because they obviously look in the same way abroad and are not on their own going to invest much more deeply in the data, and it is very important for us to know ways in which Federal data—if you have anything more to add to the record on that, what kinds of Federal data might encourage the private sector to go beyond where they look now.

Mr. REAMER. I would be happy to do that.

Ms. NORTON. Ms. Glasmeier?

Ms. GLASMEIER. I would just like to reinforce what Mr. Reamer said and use two examples. The first is in the case of broadband. Right now, broadband information is held on a proprietary basis by the providers. If you are interested in economic development and you want to know whether there is broadband capability, and you are looking at a rural State or a rural region within a State, you have to go to somebody within the public sector to get that information, and the question is do they have that information, and most of the time they don't have it; they don't know where the last mile is. So to the extent that there can be encouragement that that information be made available so that business enterprises could actually make good decisions, that is important.

The second issue or second example is in the case of renewables. Right now, States have widely different policies about the prospects for renewable energy. If you are a company from Spain and you want to make an investment in the United States because we are a really big market and we are completely underdeveloped, how do you go about doing that? How do you find the information that you need about what the State regulatory framework is, what is the local labor force capabilities, what are the other due diligence requirements of operating in an individual State? That information is not coordinated, you have to dig it out with a bulldozer. It is very inefficient.

So what does that mean for a foreign investor? Quite frankly, there are many other places around the world that they could go and sell their business as well. So if we don't make investments in information tools so somebody that lives in Spain who wants to make an investment here can do it in the comfort of their home, then those opportunities will simply go someplace else like Singapore, where they already have that information.

So it is not about should we, it is that we have to. And if we are willing to ignore the fact that the rest of the world is moving ahead of us, then that is our own cost. But we have to realize we are not playing on the field with all the tools that we need.

Mr. PAGES. If I could just add. I would agree with Mr. Reamer generally that the smartest investment for leveraging would be to invest in statistical and information resources. But I also recognize that you face a difficult budget environment in terms of supporting our, or at least my, proposals to increase funding for some of these programs. I realize that is often easier said than done.

But one other resource that the Subcommittee might want to look at is that there have been significant Federal investments already in revolving loan funds. EDA does that, the Department of Agriculture does that. And many of these revolving loan funds are underutilized at this point in time, and there might be ways to encourage improved marketing or, you know, new ways to get that funding out. These are previous Federal investments that are sitting there unused, and we ought to find ways to be able to tap that resource.

Ms. NORTON. Here in the Congress I found a piece of land five minutes from the Capitol. It made a slum out of the whole neighborhood; owned by the Federal Government. I put in a bill for a public-private partnership. It is now being developed by the private sector. You couldn't do that before because it was Federal land. The local community—there was a question from our colleague from Memphis about inner cities. It happens to be a poor local community down there. The investment from the private sector is renewing the entire section. The Federal Government hasn't put a dime in that. The land was there. It took a piece of legislation. And I am very interested in seeing how that might apply in other parts of the Country.

As I close this hearing, I don't want to leave the impression that the Transportation and Infrastructure Committee believes that traditional infrastructure is no longer important for developing rural and, for that matter, other areas. I want to stress that particularly in the Midwest and in the Northeast, where many of our underdeveloped areas are located, there is a hugely aging infrastructure precisely because these were the first parts of our Country to develop. We are about to lose billions of dollars in investment because we are letting it go to seed, if you will forgive me. We are letting it rust out of existence, so that we will have to begin all over again. And with what investment? With what funds?

I am very interested, for example, in tying infrastructure funds, or at least in doing some kind of experiment in tying infrastructure funds with upkeep of the infrastructure. There isn't a lot of incentive for cities, for example, to build a road. What is it, 80 percent Federal? Should be, certainly should be.

But what is the incentive? Unless the Federal Government encourages the reinvestment in the very substantial investment it has made in the first place. The infrastructure needs of these underdeveloped areas often remain underdeveloped, and in the Committee Subcommittees over and over again we hear about the development of water and wastewater infrastructure, which is not only aging, but some believe even dangerously aging. So we face the rebuilding America notion that I mentioned in my opening testimony, as much as I am interested in the vision of the future and the 21st economy in which we clearly already live.

I want to particularly thank each of you for your own testimony and your willingness to come today, prepare testimony, make us think more clearly about our own mission. What we have heard has been extremely helpful. I invite you to continue to submit, as you have heard our questions, ideas to us as you face the difficult task of trying to carry EDA into yet another context, far more challenging.

It is very much more difficult to be in an underdeveloped area in 2007, to virtually be starting from scratch than it was for your great-grandfather, who may have lived in Massachusetts, who could have done so with and did do so with his own labor and with an expanding economy that was a perfect match for the labor that was provided. And now we are saying, oh, you are late in coming and, by the way, the economy that might have done it has passed you by, so hop on this world, see if you can continue to function. We have got to think that way.

And, frankly, what comes in on us—and you heard some of it from my colleagues on both sides—people want to talk about their problem. That is what their constituents sent them here for. So we would never get a look at what is really, really driving the problems of the members were it not for testimony such as yours.

I ask unanimous consent that the record of today's hearing remain open until such time as our witnesses have provided answers to any questions that may be submitted to them and unanimous consent that during such time the record remains open, additional comments offered by the witnesses or groups may be included in the record of today's hearing. Without objection, so ordered.

Thank you all again.

[Whereupon, at 12:33 p.m., the subcommittee was adjourned.]

Subcommittee on Economic Development, Public Buildings and Emergency Management

Hearing on "The State of Economic Development"
Tuesday, January 23, 2007

Statement – Congressman Jason Altmire (PA-04)

I represent the 4th Congressional District of Pennsylvania in the southwest part of the state. The district includes parts of six counties: all of Beaver and Lawrence Counties and portions of Allegheny, Butler, Mercer, and Westmoreland Counties.

For those unfamiliar with the region, this is steel country and the strength of the local economy for most of the 20th century was based on the production of steel. The three rivers in the region formed one of America's great industrial zones and steel mills lined the river valleys for miles and miles. Today all of that is gone. The steel mills are closed and the good-paying jobs they provided have vanished.

In the twenty-five years since the decline of the steel industry, the communities along the Allegheny, Ohio and Beaver Rivers have experienced a mixed record of success and failure. Some of these small towns rebounded; others continue to struggle. The critical infrastructure of the region is in vast need of investment and repair. Economic development is desperately needed to revitalize the local economies in my district. How can Congress best aid these economically distressed communities with the goal of creating long-term sustainable jobs?

Today's subcommittee hearing is an opportunity for us to partially explore an answer to this question and discuss in more theoretical terms the federal government's role in economic development. Further, I hope these additional questions will be addressed during today's hearing.

What are some examples of best practices in establishing federal, state, and local partnerships to revitalize ailing economies? Is federal funding directed to areas of most need and focused on where it can make the most impact for both urban and rural communities?

I am also interested in the Appalachian Regional Commission (ARC) as the six aforementioned counties within my district are within the designated area of the ARC. Is the ARC adequately designed to encourage economic development in distressed areas in the 21st century? Are the criteria for community designation (i.e., distressed, at-risk, transitional, competitive, attainment) and the designation categories themselves accurate measures for determining counties in need?

I look forward to the testimony from today's panel and to discussing how Congress can best approach the need for economic development in the country.

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U.S. Rep. Michael A. Arcuri (NY-24)

Subcommittee on Economic Development, Public Buildings, and Emergency Management Hearing: "The State of Economic Development"

Opening Remarks

January 23, 2007

Thank you, Madame Chair. I would first like to congratulate you on becoming the new Chair of this Subcommittee – I am excited to be serving under your leadership.

I also want to express my sincere interest in working with all of my colleagues – on both sides of the aisle – to carry out the policy goals our Subcommittee has set forth for the 110th Congress.

Specifically, I look forward to addressing: recapitalization of EDA Revolving Loan Funds; increasing the number of Economic Development Representatives; and making sure that we maintain the current EDA regional offices structure.

The number of Revolving Loan Fund (RLF) projects the EDA has provided funding for or recapitalized has significantly declined since Fiscal Year 1998 and even more so since the last reauthorization in 2004. On average, RLF investments amounted to about 10 to 12 projects per year, but in Fiscal Year 2004 were down to about 1. It is critical that EDA invest in new RLF projects in order to better assist growing communities all across America with their economic development needs.

The number of Economic Development Representatives (EDR) has also declined significantly. These representatives play a key role in providing guidance and technical support to our local economic development commissions on crafting Comprehensive Economic Development Strategies (CEDS) that have the chance to be considered as viable proposals when reviewed at the Regional office.

And finally, maintaining the Regional office structure, which includes an office in Philadelphia, is critical to expediting the process of awarding funds for proposals that come from not only my district and state, but from many other states across the country.

Thank you, Madame Chair for holding this hearing today. Again, I look forward to addressing these and the many other pressing issues facing our communities as they attempt to rebuild and, hopefully, rejoice in economic success.

I yield back the balance of my time.

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Opening Statement of Representative Tim Walz (MN-01)

Subcommittee on Railroads, Pipelines, and Hazardous Materials

Tuesday, January 30, 2007

Madam Chairwoman, members of the Committee, and guests, let me say that I am truly honored to serve on this subcommittee. I am eager to examine the rail, pipeline, and hazardous material issues that face our country today.

Rail safety is an extremely important issue to my constituents, and I will work to ensure that an effectively overseen rail industry is operating on safe tracks that will protect train operators, passengers, and bystanders. Just last November a train derailed near Courtland in my district, spilling 30,000 gallons of ethanol. We need to make sure these kinds of accidents happen less and less.

I also intend to use my position on this committee to raise awareness of another issue important to constituents back in my district: the DM&E railroad expansion. This proposed project would have a significant effect on the economy, environment, and quality of life in southern Minnesota. This committee must ensure that this and future rail projects are debated in a process that yields safety, accountability, and transparency. As a steward of the taxpayers, I owe them nothing less than an open, honest discussion of the merits of such projects.

Again, I want to express my eagerness to work on this subcommittee. I look forward to a busy and informative year. Thank you.

Written Statement for the Record

Amy Glasmeier, Pennsylvania State University
E. Willard Miller Professor of Economic Geography and Planning
John D. Whisman Appalachian Scholar, Appalachian Regional Commission

Before the

House Transportation and Infrastructure Subcommittee on Economic Development, Public Buildings and Emergency Management

Washington, DC

January 23, 2007

Subcommittee on Economic Development, Public Buildings, and Emergency Management
Committee on Transportation and Infrastructure
U.S. House of Representatives
110th Congress

"The State of Economic Development" Hearing before the Subcommittee on Economic Development, Public Buildings, and Emergency Management. (10:00 a.m., Room 2167, Rayburn House Office Building)

Good morning, Chairwoman Norton, members of the committee, and guests. Thank you for the opportunity to address the Subcommittee on Economic Development, Public Buildings, and Emergency Management. My name is Amy Glasmeier and I am the E. Willard Miller Professor of Economic Geography and Planning at the Pennsylvania State University. I am also the John D. Whisman Appalachian Scholar of the Appalachian Regional Commission. I have worked for both the Economic Development Administration and the Appalachian Regional Commission on historical and contemporary studies of economic conditions in the United States. My comments about the state of economic development focus on four issues: the experience of Federal efforts to reduce economic distress; the impact of reductions in Federal funds for economic development over the last two decades; the challenges facing economic development practice today; and finally, regional development opportunities associated with the search for national energy independence.

Economic Development in Historical Perspective

Since the mid-1950s, employment growth has been considered the antidote to economic distress. Looking back to the Depression years, the cyclical economic slowdown after World War II, and concern about structural mass migration out of agriculture and into the nation's cities, we see a search for ways to use idle resources in job creation, primarily though not exclusively through the attraction of industry. From the beginning, public sector investment in economic development has focused on jobs[1].

The record shows, however, that unemployment has always been only one of the many causes of economic distress, particularly in rural areas. Since the 1960s, statistics show that while the poor worked, like today the jobs they held failed to pay a living wage[2]. In the 1960s, economic malaise reflected low wages, unstable, intermittent work, and a mismatch between the location of job seekers and employers. At the same time, distressed locations suffered from the effects of decrepit, antiquated, and sometimes nonexistent infrastructure, poor transportation services, low-quality schools and insufficient health care. The Federal policies that led to both the Appalachian Regional Commission and the EDA sought solutions to these problems through investments aimed at improving the context for development while emphasizing the efficient targeting

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[1] Lake, Robert, Robin Leichenko, Amy Glasmeier, Lawrence Wood and Tracey Farrigan. 2004. *EDA and Economic Distress 1960-2004*. Washington D.C. EDA.
[2] Glasmeier, Amy. 2007. Economic Opportunity in America: One Nation Pulling Apart. Allied Social Science Association. Chicago, Illinois. January 5.

of expenditures.[3] The essence of economic development policy has focused almost exclusively on promoting conditions that encourage job creation through business attraction.

Job creation and "investments in place" made a difference in the first decades of these two landmark programs. Economic conditions improved not just in terms of job growth, but more importantly in terms of the well-being of people living in these locations. High job growth reduced the poverty levels of many distressed counties. Explaining this development, Partridge and Rickman (forthcoming) argue that higher job growth especially reduces poverty in high-poverty places, suggesting that the poor do want work opportunities when they are available. [4]

We can see this development in findings for a study we completed in 2003 that tracked the effects of EDA and ARC expenditures over the 1965–1997 period. Here I refer to only the EDA analysis results. The original framework for the EDA-categorized counties was based on underlying conditions associated with economic distress, as measured by one percentage point or above the national average unemployment rate and/or specific place-based characteristics including dependence on a declining agriculture or economic base, a small population, a rural setting or a combination of factors that led to economic distress.

When established, the EDA identified 912 counties or county equivalents defined as economic distressed or at risk. A significant number of counties were in the Appalachian Region. The EDA also designated a large number of Redevelopment Areas in the Mississippi Delta Region. In general, counties were distributed throughout much of the U.S., often in clusters, and there were a significant number of such designations in Indian Reservations in the Southwest, and Redevelopment Areas in the central part of the country, including states such as Iowa, Kansas, Nebraska, and South Dakota and the Upper Peninsula of Michigan.

Federal expenditures made in the early years of EDA have made a difference in designated counties. For example, counties designated as Redevelopment Areas based upon high unemployment demonstrated improvement in unemployment rates over time relative to the rest of the U.S. Furthermore, EDA-designated counties fared better in terms of employment than their non-designated counterparts in the same region over time. Of note, although unemployment declined in these locations changes were only mixed regarding income. Importantly, while this research indicates improvement in EDA-designated areas over time, nonetheless, the per capita incomes, unemployment, rates of educational attainment, and other socioeconomic characteristics of these counties are still deficient relative to much of the rest of the U.S. In 1965, the EDA selected the worst counties in the country for assistance, and many of these counties continue to face adverse circumstances. This analysis demonstrates that policy can improve job conditions, but left unattended, social characteristics do not necessarily change without additional targeted investments in human and social capital. It is also important to note

[3] Glasmeier, Amy and Kurt Fuellhart. 1999. *Learning From Past Experience. Distressed County Analysis*. Appalachian Regional Commission. Washington D.C.

4 Partridge, Mark D. and Dan S. Rickman. 2007. "Persistent Pockets of Extreme American Poverty and Job Growth: Is There a Place-Based Policy Role?" Forthcoming. *Journal of Agriculture and Natural Resources Economics.*

that had it not been for Federal development efforts, many of these counties may have been far worse off today relative to the rest of the U.S. than they were in the 1960s.[5]

The Investment Gap of the 1980s

The growth in the number of distressed areas after a period of relative decline coincides with a significant retrenchment of Federal involvement in economic development policy. As Lawrence Wood and Greg Bischak report in a study of ARC expenditure history similar to our analysis of EDA expenditure patterns:

> In the early 1980s the federal government began a considerable retreat from many of the social welfare programs it had established in the 1960s. Agencies such as the ARC and EDA began working with only a tenth, or even less, of the budgets that they had worked with in the 1960s and 1970s.[6] As studies on EDA and ARC expenditures indicate, the federal government's allocations to the ARC, the EDA, and poverty programs more generally mirror patterns of growth and decline in economic distress over time. Whether by coincidence or not, as federal regional development and poverty expenditures were at their height in the 1960s and 1970s, the number of distressed counties declined in the U.S. during that same period of time. Then, when the federal government began allocating less to such programs in the 1980s, the number of distressed counties began to grow. This trend somewhat reversed itself between 1990 and 2000, a time when federal poverty and economic development spending similarly changed direction and began to rise. As suggested, however, federal allocations to the ARC, as well as to the EDA, are currently far from their historic highs of the 1960s and 1970s, and federal allocations to both of these agencies have remained relatively low for the past two decades.[7]

The accompanying figure demonstrates a clear drop-off in EDA expenditures in 1982. Since that time, the agency's expenditures have remained relatively low (real dollars). Not including 1977, when EDA expenditures dwarfed the agency's expenditures in all other years, from 1966 to 1981 the agency's annual real dollar expenditures averaged $972,908,308, or close to 1 billion dollars per year. In 1982, total EDA expenditures dropped below $500,000,000 for the first time in the agency's existence. Between 1982 and 1997, average annual expenditures were $330,587,860, or approximately only a third of what they had been prior to 1982.

Over the last 30 years, amendments to the agency's originating legislation served to spread funding to more and more counties. Not only was the absolute amount of funding static or declining, but the number of potential recipient counties grew through time. Thus EDA's potential impact must be seen in light of this trend.

Summing up, Federal efforts toward reducing economic distress have made a difference. Dilution of effect occurred after 1980 when the agency's budget was severely curtailed while additional recipients were added to the pool of candidates. Taken

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[5] Ibid, no 1.

[6] Wood, Lawrence and Amy Glasmeier. 2003. *EDA Expenditures Analysis. Preliminary Findings.* Penn State.

[7] Lawrence Wood and Greg Bischak. *Trends in National and Regional Economic Distress* 1960-2000. p. 7. ARC 2005.

together, the ARC and EDA experience suggest that we have learned a great deal about what works and what doesn't and that a regional approach can have positive impact on levels of economic distress.

The Day of Reckoning: Insufficient Investment in the Past Requires New Vision

The emphasis on jobs over the last 30 years has brought to rural areas and distressed counties some degree of development. But, technological change, corporate restructuring and global competition are now changing the nature of work in rural America and causing serious problems of displacement in many communities that were the beneficiaries of post-war rural industrialization. Job losses are mounting in communities where low-skill employment has dominated the economy. From 1997 through 2003, over 1.5 million rural workers lost their jobs due to fundamental changes in industries that have historically been the mainstay of the rural economy.[8] The rate of this job loss is increasing as firms seek to lower their costs through automation and the contracting out of supply needs to labor outside the U.S. In rural America, workers in manufacturing are being hardest hit—from 2001 to 2003, one in ten displaced workers were employed in manufacturing. Looking ahead, the data show that workers with only a high school education, regardless of the industry in which they work, are especially vulnerable.

Today's economic conditions necessitate an integrative strategy that focuses on both people and place in response to a renewed era of industrial restructuring. The previous emphasis on jobs has often hamstrung the EDA and other development agencies by limiting "what counts" in terms of development outcomes. Even though economic development received an early mandate to use policy tools such as employment and training to help enhance local capacity, turf battles, a lack of expertise and performance standards all served to focus the bulk of EDA investments on infrastructure and other "job generating" activities. Although mandated to work with other agencies, particularly the Department of Labor, jurisdictional competition inhibited joint problem solving. The tendency to justify expenditures almost solely in terms of actual jobs created limited EDA's ability to make capacity-building investments in the most distressed places where results might be slow to materialize[9].

After a long period of a mismatch between job growth and growing income inequality, the emphasis can and must shift away from a sole emphasis on jobs to one that recognizes not just the number of jobs but their quality, durability, longevity, and developmental potential. There is now widespread recognition around the country, including at the highest policy levels, that the problem of growing inequality and stagnant wages is serious. Federal Reserve Chairman Ben Bernanke, for instance, in recent Congressional testimony acknowledged that lagging incomes and growing inequality were a problem and warned "if people at the bottom end are not sharing in the benefits of open markets and flexible capitalism, they are going to react against it politically."[10] Former Secretaries of the Treasury Robert Rubin and Lawrence Summers have both

[8] Glasmeier, Amy and Priscilla Salant. 2006. *Low-Skill Workers in Rural America Face Permanent Job Loss.* The Carsey Institute Policy Notes 2. Spring 2006.
[9] op cit, no 1.
[10] http://news.moneycentral.msn.com/provider/providerarticle.asp?feed=OBR&Date=20060720&ID=5883664

recently highlighted the problems of declining wages and growing inequality as well.[11] But while there is a growing consensus about the problems of inequality, we are far from a consensus about what to do about it.

In our global economy, economic growth is clearly tied at least in some ways to developing innovative, regionally rooted and globally competitive knowledge-based industries. Does promoting successful growth in this new environment inevitably mean greater inequality? Is there a way to support industries and clusters that create and support more paths to the middle-class even in the face of international competition? Are there ways to better identify industries with high-skill and high-wage jobs accessible to more disadvantaged sectors of the workforce? If so, how do we develop effective policies that can use that as a criterion in determining which sectors to support and how to support them? [12]

What Do We Do Now?

Three areas form immediate targets of opportunity in revising and augmenting the efforts of Federal development programs. The first is the need to improve interagency cooperation. The second is to invest in skills and skill delivery infrastructure. The third is to take seriously the growth of the renewable energy industry and link national energy security to regional economic development.

Carrots and Sticks to Foster Cooperation and Coordination

Federal economic development policy implementation occurs between any number of agencies with long histories of unitary action and non-cooperation even to the point of outright antagonism. Despite calls for interagency cooperation, coordination has failed to materialize, wasting time and resources. Incentives and penalties are required to break down barriers, leading to a reconfiguration of economic development, workforce, education, and infrastructure investment practices along the lines of local-level workforce boards.

Especially in rural communities and communities recovering from natural disasters, there is a need to clarify procedures and streamline the approval process of most development programs. For instance, completing a sewer or water project may require submitting applications to USDA Rural Development, U.S. Dept. of Commerce Economic Development Administration, and to the state or other administering entity for Federal Community Development Block Grant funds (not to mention any relevant state programs). At present there is no single repository of information or a centralized approval process for projects. In general these programs do not routinely communicate with one another.

An interagency team approach is needed to handle disasters. This approach involves a single application submitted to a team consisting of high-level staff from all involved Federal and state agencies. The team then jointly reviews the project, determines its

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11 http://news.moneycentral.msn.com/provider/providerarticle.asp?feed=FT&Date=20060724&ID=5889856

12 Benner, Chris. Personal communication. Penn State. January 2007.

eligibility/viability, negotiates an acceptable funding structure among participating agencies, and provides a unified response to the applicant.

Workforce Implications Front and Center in Economic Development Practice

Investments in economic development must include thoughtful consideration of workforce needs. Bricks and mortar projects/financing schemes/tax abatements alone are not enough—there needs to be a more holistic approach. Workforce is one of the fundamental building blocks of economic development and yet all too often economic development professionals are completely disconnected from the workforce development function. If these two functions are not ultimately linked, beggar-thy-neighbor practices of employee raiding will result.

Over the past two decades, what economists refer to as "returns to skills" movement has increased dramatically. Few workers today can earn a family-supporting income without post-secondary education or training in market-relevant skills. Yet, according to the 2004 Current Population Survey, 43% of working-age adults (ages 25–64 years) have completed at most a high school education.[13] Estimates of the number of adults who never finish high school vary, but range from one-tenth to one-third of the population. Even among adults who have graduated from high school or obtained a GED, many are not academically prepared for college-level work. For example, an estimated 55% of all community college students must take courses in remedial mathematics or English prior to enrolling in for-credit coursework.[14] More and more adults lack the credentials or skills to not only obtain employment that pays family-supporting wages, but also to succeed in traditional venues for post-secondary education or training in order to learn the requisite skills. Experts at the Aspen Institute see three primary challenges:

> 1. There is a growing gap between the rate of growth in the native-born workforce and the need for new labor market entrants. Over the last 20 years, the native-born workforce has grown by 44%. In the next decade the growth in the native-born workforce is projected to grow by 0%. All growth in the labor force will come from immigrants. This raises serious issues about the need for sources of remedial education and language programs to quickly incorporate immigrants into the future labor force.
>
> 2. A huge supply crunch of educated and work -ready employees looms in the future. Increases in productivity have raised demand for skilled workers. Over the last 20 years the number of workers with post-secondary education grew by 19%. Over the next decade this same figure is expected to increase by only 4%. More creative and non-traditional means of encouraging post-secondary education uptake are required.

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[13] Jenkins, Davis. "Career Pathways: Aligning Public Resources to Support Individual and Regional Economic Advancement in the Knowledge Economy". Workforce Strategy Center, August 2006.

[14] Haveman, Robert and Timothy Smeeding. "The Role of Higher Education in Social Mobility", *Future of Children* 16:2, Fall 2006, www.futureofchildren.org.

3. Increasing wage inequality and the rising cost of education is damping both the incentive to and the ability of U.S. workers to invest in education.[15]

Lack of education and skills-based qualifications limit many from obtaining better jobs and higher wages. But this skills gap also means that businesses are experiencing shortages in appropriately skilled workers across a large and growing range of occupations. Globalization, technology and demographic shifts impend to make skilled worker shortages an increasing threat to U.S. business competitiveness. A variety of innovations in the K–12 and postsecondary education systems are being implemented on a large scale to attempt to prepare future workers who are currently in school. But these solutions do not address the needs of adults who are already in the workforce and who lack the skills needed by employers in order to compete and needed by employees to advance. Again, according to the Aspen Institute, the future workforce for business is made up largely of people who are already in the labor force. Roughly 60% of the projected 2020 labor force is already working.[16]

Combined, these developments underscore the critical need to link labor market and economic development policies. The degree of variability in the labor market due to population settlement patterns underscores the importance of ensuring that all policies are adaptive and responsive rather than based around a mind set of one-size-fits-all and invariant across and insensitive to differences among locations.

Energizing Regional Development: A Golden Opportunity

The global demand for energy is increasing at a staggering level, particularly as countries like India and China develop at a vast rate. The composition of future energy supplies now dominates the international energy debate as formative of economic security and development. Increasing demand for energy is operating in tandem with increasing global concerns about the impact of conventional energy on our environment, particularly with regard to greenhouse gas emissions. As this new paradigm continues to reveal itself, significant action is underway to establish and grow new energy sources. Renewable energy sources such as wind, solar and biomass power are growing in importance as resources to address these two serious needs.

The roles of these resources have evolved over the last three decades since their emergence to ones of technological maturity rife with economic growth opportunities. The nature of the U.S. position regarding the manufacturing of the technology for wind, solar and biomass, however, is of immediate interest and concern. A leader in innovation and manufacturing early in the renewable energy era, the U.S. has been overtaken by international interests in the last decade. Wind energy is primarily dominated by European companies, with only one of the top ten manufacturers based in the U.S. India is already a significant global player in the wind industry and China is positioned to enter into this industry in force over the next few years. Solar energy, where it is less

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[15] Grow Faster Together or Grow Slowly Apart: How Will America Work in the 21st Century. A report authored by David Ellwood and based on the work and discussions of the Domestic Strategy Group, a bi-partisan group of leaders from the realms of academia, journalism, business, labor and government.

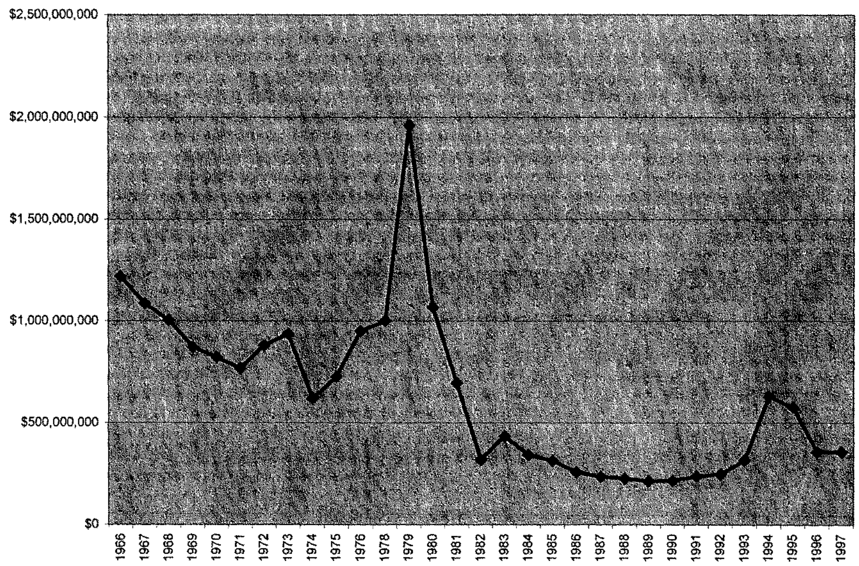
[16] Calculation based on data from the Bureau of Labor Statistics. ftp://ftp.bls.gov/pub/special.requests/ep/labor.force/clfa1050.txt

consolidated than the wind industry, is demonstrating similar trends to wind in that the U.S. is now a net importer of solar photovoltaic (PV) modules.

What the evolving nature of manufacturing within these industries reveals is that the U.S. is allowing itself to be shut out of one of the fasted growing industries in the world. As a nation with increasing annual energy demands itself, it may well be reestablishing its future energy dependence on the manufacturing of energy equipment from beyond its own borders. Alternatively, it is possible to follow a strategy that simultaneously supports regional development while taking advantage of the growth of the renewable energy sector along the way, making stronger links between labor market and economic development goals and policies. Research commissioned by the Appalachian Regional Commission clearly demonstrates there is significant job generation potential accompanying renewable industry growth. These industries are currently growing by at least 25 percent per year, have done so for the past five years, and are expected to grow at this rate or higher for the foreseeable future.

I appreciate the opportunity to address this subcommittee, and thank its members and chairwoman for their time and interest.

Figure 1: EDA Expenditures 1966 – 1997 (In Real Dollars). Figure Excludes 1977



Data Source: Economic Development Administration

Written Statement for the Record

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House Transportation and Infrastructure Subcommittee on Economic Development, Public Buildings and Emergency Management

Washington, DC

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Markusen Testimony
Subcommittee on Economic Development
January 23, 2007

Mr. Chairman, thank you for the opportunity to address the committee on the current state of federal support for economic development. In the rhetorical battle over place prosperity versus people prosperity, there is a growing consensus among economists that places do matter in wealth and income creation beyond the sum of the firms, workers, and owners of resources within them. Economist Roger Bolton has demonstrated convincingly that there is an economic value to the sense of place. This is particularly important in places that confront sudden or structural setbacks. Communities in distress have physical and social assets that can be harnessed to new productive economic activities with timely interventions and guidance. Thousands of communities across the US have experienced periods of economic distress and found themselves in need of such interventions over the past four decades. Thanks to federal economic development programs, they have been able to preserve and build on their assets to recreate healthy local economies and provide good work.

The Economic Development Administration and other federal agencies have played a crucial role. They have helped to build planning capacity across neighboring communities too understaffed to do so themselves. They have emphasized coordinated regional development approaches that direct attention to the longer term. They have provided timely economic adjustment assistance, both financial and consultative, to communities undergoing development shocks, enabling them to form and implement a strategy for recovery, and to individuals experiencing sudden structural or policy-related unemployment. They have helped depressed rural communities in particular with infrastructure development. They have supported entrepreneurship and small business initiatives that create new and diversifying economic activity. They have provided workforce development programs that help match people who need work with employers who need workers. They have assisted existing businesses under competitive pressures to modernize and meet their competition.

Nevertheless, federal economic development programs are in need of an overhaul that could markedly improve their effectiveness and make large contributions to local and national economic wealth and income generation. I will confine my remarks to areas where my research and experience as an economic development advisor and my review of a rigorous and applied body of recent research suggest that significant gains can be made in the federal economic development effort. I present a series of problem statements and corresponding solutions that the committee might consider.

Physical versus human capital in economic development

In general, federal economic development programs place too much emphasis on physical infrastructure and not enough on human capital and "soft" infrastructure, meaning organizational know-how and networking. A burgeoning body of research, my own included, suggests that human capital – the skills of workers in many disparate fields, from computer technology to machinists to home care workers – are as crucial to productivity, American economic performance and community viability as physical capital and infrastructure. Furthermore, modestly-sized programs such as manufacturing extension and incubator services that help smaller businesses learn the technology, management and marketing skills they need to survive may be doing more to shore up employment and local economies overall than are incentives attached to physical capital.

The solution to this imbalance is greater emphasis on human capital formation and on links between physical and human capital development in federal programs. Communities should be offered sufficient data on and be required to examine the occupational composition of existing and prospective enterprises and reflect on how well they match the workforce in place, lest jobs in new business mainly go to outsiders. Investments of time and energy that enhance human capital formation and managerial performance specific to particular communities' economic development agendas should be supported by economic development programs, even if they involve no collateral. Federal programs should include incentives that encourage institutions and organizations supplying human capital – technical schools, community colleges, apprenticeship programs, universities – as well as those networking among and representing occupational groups (professional associations, unions) to become involved in local economic development planning. Integration of industry with occupation, of physical with human capital, and of economic with workforce development faces challenges in that responsibility for physical capital and human capital are currently lodged in separate federal agencies or in separate agencies within departments, a point I return to below.

Balancing export orientation with consumption base potential

Federal economic development programs heavily favor export-oriented economic activities at the expense of the local consumption base and its potential for greater capture of local and regional spending. Pre-occupation with export-oriented industries is understandable given the primacy it has been accorded in economic development theory. But in the past decade, economists and communities have begun to understand that increments in selective local-serving capacity can also provide sustainable job and wealth creation, especially for small rural communities and inner city neighborhoods. Investments in arts and cultural centers, recreational facilities, and quality health and elder care centers offer residents expanded options to spend health care dollars and discretionary income within their own communities. Such investments also help attract and secure export-oriented enterprises by providing amenities that draw skilled workers, managers and retirees. Federal programs should permit the use of economic development funding for selective investments of this type.

Reining in the competition for capital

Federally-subsidized infrastructure investments help recipient communities but often underwrite a heightened competition for capital that simply moves jobs (and workers) from one community to another. There is backlash danger that losing parties will successfully approach the courts to eliminate or severely curtail development incentives altogether as violating the interstate commerce clause. Rather than being taxed away or deemed unconstitutional, state and local government tools for economic development, including incentives, should be preserved, because the responsibility for economic performance has wholly devolved onto state and local shoulders. But it is inefficient and unjust for taxpayer dollars to redistribute jobs and economic activity if net new wealth and income are not generated. Helping communities "avoid expensive and wasteful bidding wars to recruit new businesses" was the second of ten recommendations of the National Academy of Public Administration's in-depth review of federal economic development programs in 1996.

Solutions to this dilemma include a stepped-up federal government role in dampening biddings wars. One route would involve financial incentives to encourage local and state governments to join and abide by non-poaching agreements. Another would be regulatory reform that would improve the "market for jobs," including the following. As is currently required in eleven states, require all units of government receiving federal economic development funds to annually disclose details of specific deals with companies, including itemized incentives given, jobs created and whether the jobs are full-time, well-paid and with benefits. Require that states use a cost/benefit model to assess incentive packages and post these within 30 days of deal closings. Require that all incentive packages include performance requirements, including clawbacks that safeguard public investments. Encourage states to make tax code reforms that close corporate tax loopholes and repeal the single sales factor. Encourage states to register and regulate site consultants as lobbyists, forbid success fees, and limit consultants' work to just one side of the market. The federal government could withhold a share of states' Commerce and Labor appropriations for federal economic development programs as a carrot to encourage state reforms. Through innovations like these, billions a year in wasteful subsidies could be averted at very little cost to the federal government.

EDA could also fund three-quarters of the cost of each state adopting a minimally standardized unified development budget. Such budgets, which have been proposed and modeled for the states of North Carolina and Kentucky, combine both direct expenditures on economic development and the often much larger tax expenditures, i.e. the foregone revenues resulting from current and future tax breaks. Unified development budgets enable decision-makers and communities within states to see clearly the overall shape and distribution of resources for economic development and make it easier to debate future levels, program composition, and distribution.

Coordinating across federal agencies

The recent emphasis in EDA on coordinated regional development approaches is very welcome, but there remain high barriers between the various federal agencies' programs, resulting in considerable inefficiency. There is a pressing need to integrate economic with workforce development and environmental remediation and protection. That "the present multiplicity of programs imposes unnecessarily high transactions costs on states and localities and exacerbates inherent weaknesses in their approaches" was a point was made forcefully by the National Academy of Public Administration's review. The significance and "do-ability" of such coordination are underscored by the progress made at state and local levels in integrating these concerns, sometimes at an agency-wide level. In this regard, the federal government lags behind.

Congress could review the entire panoply of economic development programs, starting with those at EDA and including the Department of Labor and Bureau of Labor Statistics' workforce development and occupational data analysis activities, National Institute of Standards and

Technology's Manufacturing Extension Partnerships, the Small Business Administration's programs, Department of Defense's Small Business Innovation Research program and Office of Economic Adjustment, and Housing and Urban Development's Community Development Block Grants (CDBG), Enterprise Zones and Brownfield Development programs. Furthermore, EDA is in a position to help communities struggling with Environmental Protection Agency mandates for environmental clean-up of water, air and land, an excellent use of its infrastructure funding program.

This Committee and Congressional counterparts could considerably raise the stature of federal economic development work by adopting innovations that require agencies to work across departmental lines and create new incentives for communities to work together on a regional and cross-agency basis. The Department of Labor's WIRED (Workforce Innovation in Regional Economic Development) initiative is a good example of a new effort along these lines. You could, for instance, fund EDA to provide seed money for regional partnerships around certain issues (e.g. trade development, modernization/new technology, or Brownfields/economic development) that tap into multiple agency budgets. EDA could be charged with leading an interagency effort to standardize the application process for these projects. It could also mandate that states redraw EDA regions to be co-terminus with Workforce Investment Act regions. This would save money, result in more effective programs, and broaden the number of communities served.

As an example, many of the federally-funded state Manufacturing Extension Partnerships, while surviving efforts to eliminate the program altogether, have been consolidated across state lines or spun off as private non-profits due to state fiscal crises. In the process, staffing has been reduced and previous partnerships with other state and local economic and workforce development agencies have been undermined. Congress should reaffirm its commitment to the MEP for its highly effective programs but in ways that encourage or require close partnerships with economic and workforce development efforts.

Blocking up federal economic development funding regionally

Federal economic development program delivery remains complex and unduly resource-consuming, even within a single agency like EDA. The Committee could explore blocking up federal community/economic development programs under the stewardship of EDA, an approach that has worked well in the CDBG arrangement since the 1970s. It could direct that block grants be used to generate regional collaborations that bring localities together, including across metro and rural lines, around unique and pressing developmental issues. Blocking would save significant amounts of administrative time and reduce costly duplication, and it would allow states and localities to select projects and priorities that are appropriate for their unique circumstances. There will be some resistance to this approach. Localities will tend to oppose blocking because they see EDA and states presently as two distinct sources for funding projects, and some would fear state pass-through as imposing one more layer of bureaucracy. There will also be issues around matching requirements – currently, for instance, some localities and regions use state-administered CDBG funds as a match for EDA-funded projects. But the gains to blocking will be quite substantial.

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January 23, 2007

Targeting and performance for federal programs

Often the consequences of economic development programs are disappointing and/or difficult to determine. At worst, they leave communities in debt for infrastructure that is not used and/or facing large operating deficits. Some investments induce firm location or retention that would have happened anyway, shifting the cost from firm owners to taxpayers. New branch plants or offices may hire only small shares of their workforce locally, bringing in newcomers who place pressure on public budgets and the general cost of living. Or they are located in the most prosperous sites within regions rather than in the areas that need them most.

Solutions would direct EDA and other economic development agencies to emphasize longer-term job creation, require disciplined targeting of assistance, and strengthen the links between assistance and performance agreements and outcomes. The current stress on short-term job creation often funnels federal economic development dollars into singular projects whose job creation is in large part due to prior foundation investments. Multiple criteria for allocating funding should take into account quality and likely longevity of jobs; the share of jobs going to regional residents and those who particularly need work; skill formation for the region; entrepreneurial capacity-building; and environmental protection and remediation. Performance criteria can be attached to federal economic development spending, building on pioneering experiments at the state and local level.

Programs for short-term job creation could be streamlined to target the most distressed communities and workers, greatly increasing returns to public spending. William Schweke of the Corporation for Enterprise Development has proposed two innovative initiatives that do so. One is a job growth tax credit of up to one third of the first $15,000 of wages for new employees over baseline employment, to be offered in years of high unemployment. The other is a targeted job creation grant program offering private employers direct wage and benefit subsidies to hire resident unemployed job seekers in the most economically disadvantaged communities. Innovations like these target existing businesses and unemployed workers. Note that performance criteria are built into these proposals, because no public spending would occur without the targeted job creation.

Place-based eligibility versus place-tied problem criteria

In designing economic development programs, EDA and other agencies often use place-based criteria such as per capita income to identify qualifying counties or communities. But in some agricultural counties, a very small number of high-income farmers can render all communities in the county ineligible even though many residents are living at poverty or near-poverty level incomes. Similarly, many deserving inner city and suburban communities in large metropolitan areas have no shot at EDA funding because place-based criteria bundle them into larger, more affluent units. EDA is largely viewed as a "rural" ED agency, because older cities and deteriorating suburbs have difficulty accessing EDA's development and infrastructure programs.

A solution to this problem would be to forego strict place-based eligibility criteria in favor of a fuller set of place-related problem characteristics that trigger eligibility in programs and can be flexibly applied to communities within larger county units or metro areas. These might include per capita income, poverty levels, unemployment rate (but also recent worsening in unemployment rate or poverty level), physical or environmental deterioration, and so on. Brownfields, for instance, pose a developmental problem that is very much tied to place. EDA might be charged with providing the expertise and support to bring these back into re-use, regardless of other community characteristics. Similarly, many communities with limited capital budgets will have a difficult time meeting EPA clean water requirements in the future, and this may be an effective investment for EDA public works funds, regardless of other place-based criteria.

Evaluation, dissemination and program re-design

Evaluation of economic development programs is exceptionally thin, and thus many programs and activities persist without the benefit of knowledge of cause and effect and without cost/benefit analyses that compare alternative approaches. We have very little in the way of solid research results that tell us how well past investments have worked (and under what circumstances) or that evaluate the impacts of new ways to promote economic development. As a result, many federal, state, regional and local economic developers follow the latest fads in programming – clusters are an example – rather than making truly informed investment choices. I have left this point to the last, even though it merited first place on the National Academy's 1996 list of ten recommendations. The Academy argued for earmarking a significant portion of the federal economic development budget for information and research that illuminate successful practices.

A strong solution to this problem would be to designate the Economic Development Administration as the primary national agency investing in research and evaluation aimed at helping economic development practitioners and leaders at all levels understand what really works. EDA could build a vigorous economic development data-gathering, research and evaluation arm to marshal critical data, similar to the Bureau of Labor Statistics in the Department of Labor.

EDA's research and evaluation work could draw on the growing expertise of universities and non-profit think tanks by commissioning competitive and peer-reviewed independent analyses of what works and what does not, using rigorous methodologies that compare across cases and places. For instance, work by Timothy Bartik, Peter Fisher and Andrew Isserman, among others, has shown that for every ten jobs created in a local labor market, eight go to outsiders rather than local residents; that modest variations in wages or skills can offset the largest available incentive package; that of jobs added by business openings and expansions, about 85% are due to existing firms expanding; that business tax incentives have caused a marked erosion in the corporate share of state tax revenues over the past decade; and that the Appalachian Regional Commissions' programs over the past several decades significantly increased community output and employment compared with comparable counties that were outside of the region. These and other evaluations of particular programs offer policymakers solid evidence on the impact of programs and reveal specific design features that enhance or impede that impact. EDA could disseminate the results of its funded research widely and partner with program managers at federal and state/local levels to improve program design and performance.

In concluding, Mr. Chairman, I urge your Committee to undertake a revitalization of federal economic development programs. In the 1990s, the federal will to evaluate, rethink and redesign welfare programs resulted in a markedly better welfare system nation-wide. The same challenge presents itself today on the economic development front. With an increasingly integrated world economy, communities face even greater risks today than they did in the 1960s, when contemporary federal economic development programs were first formulated. The nation should make sustained commitments to economic development programs, provide leadership in this shared responsibility with state and local governments, energetically evaluate economic development outcomes, and craft its assistance in the most efficient, equitable and democratic manner possible. Thank you for the opportunity to testify today.

Amy Glasmeier, Pennsylvania State University
E. Willard Miller Professor of Economic Geography and Planning
John D. Whisman Appalachian Scholar, Appalachian Regional Commission

Madame Chairman, thank you for the opportunity to address the committee on the current state of federal support for economic development.

Thousands of communities around the nation owe their water system, mainstreet, public library, road network, airport, health clinic, broadband system, and in some cases their jobs to federal programs including CDBG, USDA, EDA, ARC, HUD and others. They owe their s ability to plan for the development trajectory of their communities, to respond to the devastating effects of natural disasters, to undergo change to the knowledge they have gained as a result of the institution building efforts of federal community investment and planning programs. In places I work in in Appalachia, the Mississippi Delta, the Northern Woods, thee communities would not be the places they are today if it was not for federal development programs.

The evidence from evaluation research, formative and summative studies, show that federal programs make a difference and are surprisingly efficient at doing so. If we look at common metrics of success such as jobs per dollar invested, the number of jobs retained, the number of new firms established, or the number of firms preserved, increased local capacity, reductions in water born diseases, the rate of access to health care and many metrics, we can see that federal programs for community and economic development have been cost effective. The evidence demonstrates that the role the federal government plays in America's communities is developmental and critical to the quality of life in both urban and rural areas.

For the lat 40 years the federal government has been engaged not only in assisting communities in transforming, but more importantly these programs have assisted communities that suffer as a result of economic disadvantage due to location, economic history, natural disaster, or unanticipated calamity.

I work and live in Appalachia. I have been to some of the most economically challenged parts of our country. If you ask the man or woman on the street about the role the federal government has played in their community they are liable to be able to answer with specifics. For these places government is good, helpful and necessary.

I don't want to debate whether there is a role for the federal government in economic and community development. That is the subject of huge volumes of research.

Instead, in the rest of my time, I wish to talk about what remains to be done and how we can do it together.

1. There are still communities in America that lack proper water and sewer systems. In Appalachia we call theses deficient systems straight pipes, and they are still with us. In other regions there are local names for deficient water systems.
2. There are communities that without help will never have decent internet access and without it their children will grow up seriously behind the rest of the nation and increasingly the world.
3. There are still communities that lack adequate roads and thus a trip to the hospital can be life threatening because of the time and difficulty of getting to proper care.
4. There are communities devastated by plant closures that have lost their economic base and have no alternative source of economic livelihood.

The problems that were invoked at the moment the federal role in development was established are still with us. Yes, significant progress has been made, but there is still more to be done. We are half way home with a significant distance to go to ensure that Americans have equal access to the resources they need to lead, healthy, productive and happy lives.

Programs have helped and problems remain.

And there are new challenges ahead.

For the last 20 years we have grossly under funded federal agencies engaged in community and economic development. The era of greatest impact of federal programs was twenty years ago. We have been slowly disinvesting since the 1980s. Major programs are half and some times a quarter of their original size even as more places have request assistance.

The first order of business is to dedicate more funds to help make our nation a 21st century society. I am suggesting that we return to a time 30 years ago and pick up where we would have been had it not been for major cut backs. We need to state the kind of nation we want to be and identify the kinds of communities we feel are worthy of our citizens, determine what these circumstances consist of and then plan to achieve this quality of life. We need to start at the end state and work backward, recommit to the kind of nation we want to be and to be known for. Retrofitting, adapting, what ever you want to call it, if we do not plan with goals and objectives we won't make the necessary changes and we won't know what the right investments are to be a 21st century society.

To the specifics

1. Past emphasis has been on roads and other infrastructure. While these are a necessary and continuing target of investment, they are not enough. Neither are jobs for the sake of jobs. We have to create programs that prepare the workforce to be effective, flexible and developmental. We have to think in terms of human capital and wealth creation through investment in people. It is the one asset a nation uniquely benefits from and can augment in unique ways.

2. We have to create programs that focus on a achievable development goal. In the area of economic development this means coordination from the outset, which includes everything from identifying the initial economic opportunity to the pragmatics of integrating job creation with workforce preparation. We cannot plan on the basis of institutional silos where everyone does their own thing in isolation, we have to establish programs that require that federal agencies in Economic and community development are working together. Communities also need the data to be able to plan, especially in the area of workforce.

   When we undertake economic development, we must create jobs knowing where the workers will come from, what their skills are and what competencies are needed. We also need to understand the strategy of the firm and how it will evolve through time. Our competitors think of economic development strategically, they are strategic, we must also be strategic.

3. We must act regionally. Economies are regional in size and function. Labor markets cross county lines and employers look at regions as the supply base for their firms. They look at regions as their demand shed. Programs need to be scaled to encourage regional approaches because this is the effective spatial unit today.

    a. Regions are varying in their size and the correct regional configuration depends on the problem. As an example, as the nation pursues a renewable energy future, it makes no sense to plan unit by unit, operation by operation to generation energy through non-fossil fuel sources.. It makes sense to look at areas that have similarities in their economies, their social networks, their physiographic context, and we must encourage them to work together to achieve goals. Such a future will require planning and include geographies that are broad not narrow.
    b. Economic development problems are regional. If we take the North Woods as an example, the decline of the economic base of the region is pervasive and it is the result of similar causes, the infrastructure problems are similar, the investment problems are similar, to achieve efficiency and to benefit from unique attributes of the area, regional efforts are required.

4. Invest. We simply have to invest in our communities. In some cases this is because the infrastructure is dated. In other cases, we must act because there is still inadequate infrastructure. In other cases it is because what is needed for the future is new and cannot be achieved through a retrofit of existing capabilities.

5. The ability to plan is essential. EDA in particular, but also ARC and parts of other programs including USDA, require communities to plan. This is a critically important community capacity building activity.

6. Reduce competition between communities. Regional approaches can help with this.

7. Consider the non hard goods aspect of the economy, the non traded goods. Given national demographics this makes sense. It is not the entire answer, but it should be a component of good planning and development.

The Distinctive City: Production, Class and Identity

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Chapter 2 Broadening the Focus for Local Economic Development

Cities are struggling to present a more distinctive face to the larger world and to their own citizens. Powerful integrating forces have undermined regional manufacturing strengths and unique local consumption offerings, obliterating traditional sources of identity and distinction. Blue-collar workers face blistering competition from low-wage workers elsewhere who have access to the same technologies but few benefits or workplace rights. Sprawling suburban developments, look-alike downtown entertainment complexes, and big box retail disappoint visitors looking for the unique, unusual and loveable in another metro. To compete, leaders cultivate new economic productive niches while shoring up and maintaining traditional strengths. They aspire to attract and hold skilled workers. They try to tailor and market cultural and environmental assets that will help them stand out in the crowd. In these efforts, we argue, they suffer from a poverty of theory.

The impulse to foster distinctiveness as a development strategy is fed by received theories that emphasize export base activities, firms as decision-makers, investments in physical capital, and industries as groupings of like-producing firms. These theories, while useful, are myopic. They do not accurately reflect significant causal forces that shape contemporary urban economies. In this chapter, we explore four foci that expand current mono-visions of economic development theory by adding complementary lenses. We challenge the nearly universal focus on the export base by demonstrating the theoretical case for development in the consumption base. We reject the heavy emphasis on incentives for physical capital and argue for the critical role of human capital in regional development. We point out that workers and households are increasingly important location decision-makers, complementing and modifying firm choices. And finally, we make the case for analysis of and targeting key occupations (meso-economic aggregates of similarly-skilled workers) to balance the conventional focus on industries (meso-economic aggregates of like-producing firms). Putting each of these dualisms together offers economic developers and urban leaders the powerful tool of stereo vision in crafting a strategy for their cities' distinctiveness.

We first explore the dominance of export base theory. The export base orientation, a peculiarly North American innovation, grew out of an exceptional history of land settlement on the mercantile outposts of emerging European industrial society. Economists eventually crafted a theory to match this experience, arguing that to maintain livelihoods and quality of life, regions must rely on an export base that will be resistant to import competition and generative of good jobs over the long haul (Howes and Markusen, 1993). We review export base theory and the relatively weak empirical evidence for it. We then elaborate on the ways that changes in the consumption base can be generative of increases in output and jobs in a region. We show that selective investments in the consumption base--in arts and cultural capacity, recreational opportunities, and quality health and elder care, for instance--can capture higher shares of spending out of local incomes and add to the quality of life that attracts income-generating in-migrants, including retirees, workers and managers. These are the subjects of the first section.

The export base mindset is linked in economic development practice to a bias toward investments in physical capital rather than human capital. Parallel to the way that

20^{th} century architects and engineers shaped the built environment of cities without regard to the human and social needs, local economic developers have been blinkered into a myopic focus on physical capital. Business incentives for investments in plant and equipment have become the staple of development practice, while human capital – increasingly recognized as a very crucial driver of economic development -- has taken a back seat. We explore the downside of overly heavy investments in physical capital, including the tendency for these to simply move economic activity from one place to another. For a half-century, there have been strong but largely ignored voices stressing the significance of human capital in national and regional economic performance. Only very modest investments in training have been funded by economic development programs, and very few regional or metropolitan economic development efforts actively engage educational systems in their strategy formation. These are the subjects of the second section.

The economic base mindset and its companion preference for physical capital are linked to a narrow vision of significant actors in the regional economy, one that privileges firms as location decision-makers. As a result, economic development has become preoccupied with increasingly costly efforts to induce firms to locate and remain in a region. We offer a major corrective by shifting the focus to workers and households as decision-makers who invest in human capital and decide where to live and work. When choosing among competing jurisdictions for education and careers, they base their decisions on both work possibilities (including non-pecuniary aspects of jobs) and on quality of life. Because workers do have strong preferences for non-work-related features of regions, firms must take this into account when making their location decisions. The significance of worker spatial choice reinforces our case for the significance of the consumption base in a region, because the character of consumption opportunities contribute to the regional quality of life and can be addressed with policy and resource commitments. These are the subjects of the third section.

These poverties of theory are manifest in the widespread reliance on industry analysis as a tool for understanding the structure and change in regional economies. Industries consist of aggregations of individual establishments that are spatial units of firms, either independent, single-site companies or branch operations of multi-site corporations. Much analysis of employment and output in a regional economy is conventionally structured around these aggregates--manufacturing, transportation, services, finance, government and so on. But it is also useful to conceptualize the regional economy as comprised of occupational aggregations of similarly-skilled workers, who shifting specializations are also key to longer term distinctiveness and resilience. This is the subject of the fourth section.

Together these four foci represent a much-needed and long-overdue corrective to the practice of local economic development. Our point is not that exports, physical capital, firms and industries do not matter, but simply that economic development practice needs a greater balance. In closing, we call for stereo vision--a coupling of export with consumption base focus, a combination of physical and human capital investments, an appreciation for worker as well as firm location decisions, and a joining of occupation with industry analysis. In subsequent chapters we explore at greater length ongoing challenges in the urban export and consumption base, worker and household location calculus, entrepreneurship and new firm formation, and how to effectively bring together industrial and occupational targeting strategies. The goal is to help local economic developers develop a portfolio approach that considers the tradeoffs among business recruitment, education and training, amenities, and branding in allocating public expenditures and shaping overall regional vision.

I. Beyond Export Base: Adding the Consumption Base

Historic theories of long-term development under capitalist systems of ownership and labor stress the singular role of specialization and division of labor, beginning with the brilliant and durable theories of Adam Smith (1776/1937) on the efficiency of the expanding division of labor and David Ricardo (1817/1888) on comparative advantage in trade. But over the past half century, a more accurate and complex account of regional economic development has been undermined by the hegemony of export base theory and practice, in which only those producers selling their output outside of the region constitute the engine of development. This theory has been applied to spatial units as large as national economies and as small as tiny rural towns.

The theory has a colorful history. Its origins lie in Harold Innis' staples theory, developed to explain how the fur trade, fisheries and lumber drove Canadian economic development (1940, 1956). In the 1950s, Nobel prize-winning economist Douglas North (1955) elegantly rearticulated the theory and later argued that American national economic development in the first half of the nineteenth century could be explained chiefly by slave-cultivated cotton exports (North, 1966). In more recent years, economists and regional scientists have developed "new" or strategic trade theory (Krugman 1990; 1991) around the notion of increasing returns to scale. The new theory demonstrates that regions can construct comparative advantage by making investments, often behind trade barriers, to ramp up an industry to scale.

The heart of the export base argument is as follows. In a trade-integrated world, regions outside of one's own are superior producers of many goods and services consumed locally. In order to be able to pay for these imports, the region must specialize in certain exportable goods and services. If new export activities cannot be found, overall growth and employment will be constrained. Everything not in the export sector is conceived of as local consumption (or the residentiary sector), including retail, health care services, local government, and personal services—the size of these sectors bears a fixed relationship to the export base where dollars earned in the latter are respent for goods and services produced locally.

In the mid-20th century, with its sophisticated globe-transcending transportation systems that reached far into little hamlets everywhere, this emergent theory seemed powerful and obvious. Mining towns became ghost towns once their singular export was tapped out. Farm communities, despite exporting ever larger quantities of agricultural produce, could not find jobs for residents made redundant by huge gains in productivity. Economists codified the theory into the export base model, ubiquitously used to this day in forecasting, multiplier analysis and economic impact analyses of everything from new branch plants or call centers of multinational firm to stadiums and New York's redone Museum of Modern Art.

But from the beginning, the theory had its critics. In his famous debate with North, Charles Tiebout (1956) pointed out several logical flaws in the theory. Though it continues to grow in terms of production and jobs, the world economy as a whole does not export! In addition, a regional economy's ability to provide for itself increases as its income from exports grows, resulting in the area reaching minimum efficient production scales in new sectors and thus able to substitute local production for imports. Tiebout also pointed out that people's consumption preferences vary by region and over time. In contrast, Tiebout argued for an endogenous theory of regional growth. Harkening back to Adam Smith, he posited that an elaborating internal division of labor could spur regional growth without exports at all. His theory was applied by Diane Lindstrom (1978) in her famous book on the early Philadelphia region, where she showed that a relatively autarchic region grew robustly from growing internal synergies between diversified rural farming and more urban manufacturing industries. These cautionary lines of argument are repeated and elaborated on in more modern discussions of economic base theory (e.g. Feser and Malizia, 1999, Ch. 3 and 4), but without much impact on the popularity of export base theory in practice.

Over the decades, practitioners of economic development have vigorously debated and experimented with import substitution and export-based strategies for regional and national development, especially in the developing world. Many industrialized countries, among them the US and Japan, nurtured their early industrial economies behind large tariff barriers and succeeded in import substitution on a massive scale, developing industries that went on to become powerful exporters. In the 1970s and 1980s, Latin American countries in particular tried to follow this same path, and import-substitution strategies were recommended for rural US areas as well (Rasker, 1995; Lindahl, 1994). But the apparent failure of import substitution in the postwar period in Latin America brought an emphasis on export base strategies back into fashion.

Yet the evidence on the relationship between output growth and export growth is far from established. In recent decades, economists working in international development have begun to question the lead role of exports in explaining GDP growth for both developing and developed countries. As early as the 1960s, Ball (1962) argued that export expansion could retard domestic development by siphoning off investment. Others have argued that exports may be a consequence rather than a cause of economic growth. In a number of carefully constructed empirical tests, scholars find mixed evidence on both the existence of a relationship and the direction of causality. Jung and Marshall (1985) find that for 37 developing countries, evidence on the period 1950-81 supports the export promotion thesis in only four cases; five countries reduced exports with growth, while four countries experienced export growth with output reduction. Ghartey (1993) finds that export-driven development appears to explain growth in Taiwan but not Japan or the US. In a five-country study, Sharma, Norris and Wai-Wah-Cheung (1991) find that Japan and Germany experienced export led growth from 1960 to 1987 but in the US and the UK, output growth appears to have induced export growth. There is thus room to explore alternative theories of regional growth, including the possibility that changes in consumption patterns also contribute to employment creation.

The export base theory is a highly stylized formulation. Before tourism became acknowledged as an important source of income and employment, the theory conceptualized exports as consisting principally of raw materials and manufactured products physically sold to producers and consumers in other regions. In the 1980s, as resource exhaustion, employment-undermining gains in agricultural productivity, and industrial restructuring revealed the limits to export promotion strategies, economic developers began extending the economic base conception to include services, especially tourism. The spectacular of the Las Vegas region, the fastest growing US metro in the 1980s and 1990s, demonstrates that visitors' consumption expenditures of dollars earned elsewhere can drive a regional economy. Some researchers respond to this by conceptualizing gaming and other tourism activities as components of the economic base. But they could just as easily be conceptualized as local consumption. Indeed, tourism scholarship stresses the joint consumption of local entertainment (gambling, music, theater, sports, and other attractions) by visitors and locals alike (Fainstein and Gladstone, 1999).

The export base formulation has been further stretched in attempts to deal with retirement migration. The historic Social Security legislation of the 1930s de-linked retiree support from family structures and communities in which retirees had earned their incomes. Since then, many large cities as well as smaller rural towns have grown dramatically by attracting retirees drawn to environmental features and lower costs of living (Nelson, 1997; Vias, 1999). A rural economic base model created by Nelson and Beyers (1998) includes non-earned income and assumes that it is exogenously derived. The retiree sector base been modeled explicitly as a portion of the economic base; unearned income--rents, dividends, and transfer payments, including social security and medicare-- now comprise 60% of non-metropolitan income in the US, compared with 49% in metro areas (Nesse, 2006). In Nesse's formulation, rather than conceptualizing retirees' incomes as imported into the community, employment attributable to retirees' local consumption is seen as exported to savings accounts and government coffers elsewhere and thus such employment is export-oriented. But from a policy point of view, the significance of investments in the quality of locally consumed goods and services (health care, housing, amenities, culture) become clearer if retirees are envisioned as being drawn to such features rather than treated as asset- and entitlement-rich individuals to be recruited without regard to local quality of life.

Very few theorists have treated local consumption sectors as a source of longer-term growth and diversification, although Jane Jacobs' (1969) vision of early urban development contains the seeds of such a view. A recent study by Cortright (2002) makes the case for distinctive local consumption as a source of growth, probing the case of specialty breweries in Portland as an example. Cortright's causal argument involves the innovative potential of such activities. In his brewing example, Cortright argues that micro-breweries' experiments for the local Portland market, flush with avid beer-drinkers, eventually created quality brews that found an export market. Here again, local consumption is important only for its facilitative contribution to new products for the export base. These attempts to build in the significance of local consumption activities as job creators and growth stimulants reveal the tenacity of the export base mindset.

Export base theory is a macro-economic theory. It offers an explanation of overall regional output and job growth as a relationship among aggregate components of an economy. It does not directly address the behavior of economic decision-makers, but divides economic flows over a period of time into components, in this case an export base component and a local consumption base component. The theory posits that changes in total employment, the sum of the two, are a function of changes in the export base component. Total local consumption is assumed to be constrained by the size of total incomes generated by exporting goods and services.

But suppose that local consumption patterns change in favor of locally-produced goods and services, causing an increase in local employment without any augmentation in the export base. Import substitution theorists have generally assumed that consumption tastes and preferences were fixed. They acknowledged the potential for import substitution, but they conceived of it as replacement of current imports with local production of identical goods and services (Tiebout, 1962). But import substitution can be more broadly conceptualized as meeting latent demand for new types of goods and services– demand that would be effective if the opportunity to participate were offered. But even then, as we will show, strategic investments in the local consumption base go far beyond this. They help to attract new residents, including retirees, skilled workers and managers who may be making company location decisions. We prefer to think of these as consumption base investments, not import substitution.

At the heart of our argument is the insight that consumption patterns may change to favor locally produced output and that such changes may be susceptible to policy influence. Such shifts may be secular and national in character, as we suggest in Chapter 4 in our interpretation of the rapid growth of ubiquitous local-serving occupations. They may consist of simple substitution of local production and consumption of goods and services previously imported. But they may also result from shifts in the mix of goods and services preferred in favor of local-serving sectors, facilitated by new consumption sector offerings. For instance, providing better local live cultural and entertainment opportunities for people may divert their consumer dollars from expenditures for travel elsewhere or entirely unrelated trips to large shopping malls to buy imported goods. A net increase in employment and economic activity may ensue, as long as the shift in expenditure toward consumption of local output does not come at the expense of other local purchases (Noll and Zimbalist, 1997). In addition, the non-wage income that retirees bring to a community may add a significant increment to local spending, so that investments in consumption capacity that serve their needs (health care centers, nursing homes) may serve as a growth and job creation strategy.

A final point about the consumption base as a source of employment and income growth concerns the size of the associated multiplier. In practice, export base analysis applies the same indirect (or residentiary) multiplier to all export base and induced activity, regardless of sector. But many locally-consumed services such as health care, home care and live entertainment are relatively labor intensive in comparison with others such as movie-going or shopping at the mall. A large portion of the consumer dollar spent on these activities goes directly into local wallets. Compared to discretionary expenditures at a shopping mall or for a new home, where a large share of the consumer dollar goes to cover the costs of imported goods and services (including migrant construction workers pay), other locally-provided consumption activities employ more people per dollar spent and thus may have a larger multiplier effect. The mechanics of this argument are explored in mathematical terms elsewhere (Markusen, 2007a). These arguments about the consumption base, and metro evidence on them, are the subjects of Chapter 4.

Acknowledging that non-wage income matters, that amenities help to attract retirees, workers and managers as well as tourists, and that tastes and preferences can be shaped by community culture and other offerings, opens up the possibilities for new local consumption-based investments as an alternative to the attraction and retention of businesses that export goods and services elsewhere. Relatively footloose workers, especially those with high rates of self-employment, such as artists, web designers and truckers, may choose to reside in a region based on its amenities and export their work and services elsewhere. Others may choose a region first and then seek work with area employers. Amenity-seeking increments of workers may make location in the region more attractive to export sector employers, who may themselves be attracted by consumption offerings. Since amenities to one person may be disamenities to another, we can expect regions to play to their distinctive strengths in marketing themselves as places to live. Thus we can integrate into regional macro growth theories the implications of micro-economic migration and location models that permit amenities and consumption potential as well as costs of production and job prospects to influence, simultaneously, the distribution of employers and workers across regions.

II. Beyond Physical Capital: Adding Human Capital

Regional economists working in the second half of the 20th century largely adopted traditional non-spatial economic growth theories to the regional terrain. These models posit that output growth is a function, most simply, of the supply of physical capital and labor. Physical capital consists of land, buildings, and equipment used over long periods of time and augmentable by investment. Labor, in these models, consists of the person-hours harnessed to physical capital in a production process. Given constraints on the size of the labor force, nations and regions can chiefly increase output through investments in physical capital, either by governments in the public sector or firms in the private sector. Despite many refinements of this simple model, including an important emphasis on the quality of physical capital and labor, it remains the basic way that economists conceptualize production in long term growth theory in capitalist economies and regions therein.

Regional economic development policies have been heavily skewed towards physical capital investments with only very modest investments in the fostering of human capital and skill. In the making of the American continent, huge investments in land (much of it taken unjustly from Native Americans), canals, railroads, ports and highways helped to drive and integrate the American and Canadian economies in the 19th and 20th centuries. These investments enabled a boom in internal trade, tying agriculture and industry together across the regions, and, since labor was relatively scarce given the land to exploit, prompted large investments in private capital (Markusen, 1987, Ch. 4). Similarly, public and private investments in power, electricity generation and transmission, water and sewer systems, and more recently, internet connectivity have been heralded as powerful growth engines. Many developing countries have mimicked the capital intensive strategies of the US, Europe and Japan, making large transportation investments to facilitate exports and reach internal markets and building huge dams and power plants to fuel industrialization.

What are the downsides of government investments in physical capital, whether publicly-built or induced through subsidies and tax holidays? First, many physical infrastructure investments simply favor one place over another, often undermining existing production complexes and causing underutilization of capacity. Isserman, Rephan and Sorenson (1989) show that towns situated on the American interstate freeway system have done better in the longer term than similar towns that are not, including many that serve as rail or shipping nodes. In calculating prospective returns on investment, the negative consequences for other regions and cities is not taken into account. A factor in the South's losing the Civil War was its squandering of infrastructure dollars in extending canals a few additional miles up each of the tidal rivers to reach additional plantations. In contrast, the North used its infrastructure dollars to knit together its eastern manufacturing cities with its rich agricultural hinterland (Markusen, 1987: Ch. 4).

Second, while transportation infrastructure may facilitate exports, it also enables import penetration, as every American city and small town now ringed with Walmarts has come to understand. The interstate freeway system in the US along with container port facilities on east and west coasts has enabled manufactured goods made in China, often by US companies, to reach dispersed small settlements cheaply, undercutting domestic producers.

A third problem with public and private physical infrastructure projects, often celebrated as job creators, is that many of them employ as many as ten times the number of workers to construct them as to operate them. This creates a boom and bust cycle that can be debilitating to smaller towns on both the up and down-swing (Markusen, 1978). Capital-intensive projects also nourish a large construction sector that can become a powerful political actor, a fourth problem. In many countries and regions, many more roads and buildings are constructed than is justified by their future returns, simply because the combined lobbying of the construction, real estate, auto and other sectors is so powerful in legislatures and parliaments. Japan tried for more than a decade in the 1990s to deal with stagnation by spending lavishly on public infrastructure without clear returns. In one extremely expensive project, the central government in conjunction with the local prefecture built a multi-billion dollar new container and transfer point in Fukuoka for trans-Pacific mega-ships carrying Chinese goods to the US. The project, using capital-intensive construction techniques, employs limited numbers workers to build it and many fewer to operate it when done. It is unclear whether the port will successfully compete with Pusan, South Korea, its rival.

In contrast, only small portions of regional development moneys go towards human capital investments. In many of the multimillion dollar incentive packages offered by states to woo large plants, as much as 5% may be used for training new workers, but this is still a tiny fraction. Some governments have created entrepreneurial training programs and built business incubators to foster new firm formation, but the amounts devoted to them are small. Workforce development programs exist at sub-national levels in the US, but are funded at only a fraction of physical capital-related outlays, especially when tax expenditures are included. To the extent that states or localities own and fund elementary, secondary, technical and university educational systems, human capital is fostered; though generally not under the rubric of regional development, these are large public investments. The presence of universities is closely correlated with favorable regional growth (Goldstein and Drucker 2006), although empirical studies suggest that the higher education impact comes mostly in human capital formation rather than in underwriting R&D or prompting regional innovation (Markusen, Hall and Glasmeier, 1986).

In the US in the past decade, academic critiques and organized protests on the part of regional governments, planners, workers and citizens have grown in volume against the excesses of state and local government subsidies to firms for private sector physical capital investments (Thomas, 2002; Leroy, 2005). Often given without performance requirements or not enforced in cases of failure to perform, hefty incentives packages allow companies to bargain their way out of years of future tax payments while receiving large grants of infrastructure and land for newly constructed plants, office buildings, warehouses and retail outlets on the promise of job creation. The European Union restrains such competition with a strict regulatory regime (Sinnaeve, 2007), and proposals to simply tax away particularistic incentives or subsidies have been made in the US (Burstein and Rolnick, 1995). In this environment, interest in human capital-oriented regional development strategies is growing.

These critiques are grounded in venerable but often over-looked theories of economic development that blossomed in the mid-20th century, as many prominent economists argued for a greater emphasis on the role of labor, especially skilled labor. In the 1950s, Wassily Leontieff (1953) demonstrated in his famous paradox that the US economy as a whole relied upon skilled labor, not physical capital, for its success. United States' exports embodied high skilled labor content, he found, not the high physical capital content widely assumed (Leamer, 1960). Robert Solow (1956) articulated the role of technology as a third, exogenous force, and in the debate that followed, economists began to analyze the impact of technological change as partly embedded in physical capital and partly in labor. A decade later, Harvey Leibenstein (1968) added the notion of "x-efficiency," attributing additional unexplained output to the role of entrepreneurs. More recently, Romer (1986) noted that social externalities may account for aggregate growth even when there are diminishing returns to capital and no technological change, and Lucas (1988) made a similar argument about the external effects of human capital (Malizia and Feser, 1999, Ch. 6).

These theoretical developments, along with disenchantment with physical capital growth measures and alarm at the costliness of incentive competition, have prompted regional economists, political scientists and planners to call for a more explicit human capital approach to regional development (Reich, 1991; Clarke and Gaile, 1998; Mather, 1999; Markusen, 2004). Incorporating human capital entails incorporating workers as a separate vector of decision-makers whose choices affect regional development outcomes and may be amenable to policy influence.

But to develop more effective strategies, economic developers could more fully assess the respective contributions of capital and labor to long-term development and design a portfolio that includes investments in human capital as well as physical capital. Individuals and households are key decision-makers with regard to these investments and to where they market their resulting skills. The significance of human capital has long been appreciated by development economists, reflected in national governments' commitments to support education at all levels from elementary through graduate school. But at the subnational level, economic development practice has evolved in agencies that have no connection with regional education policy or schooling. Workforce development programs, which target difficult-to-employ segments of the population (disadvantaged job seekers and displaced workers), are lodged in separate agencies and funded through entirely different expenditure streams. Emerging respect for the importance of entrepreneurship, a human capital trait, has been only modestly integrated into economic development strategies.

III. Beyond Firm Location Calculus: Adding Workers' Location Choice

Despite the fact that the expansion of a region's economy may emerge from other sources, export base macro-theory is coupled in practice with an assumption that firms' decisions on what to produce, how much to invest, whom to hire and where to locate production are paramount in the construction of regional economies. Indeed, these decisions can be very powerful. Firms decide whether to start up new product or service lines, build new plants and shut down others, outsource or subcontract work to other units outside the region. They decide whether to hire additional skilled workers who cost more but bring greater skill and commitment to the job, or to hire less skilled, cheaper workers whose turnover rates will be higher and productivity lower.

Deleted: venerable and

A carefully-articulated body of industrial location theory offers micro-economic explanations for how firms make decisions about locating production across regions. Pioneering work in location theory includes von Thunen's (1826/1966) effort to determine how natural resource and agricultural producers would allocate themselves at distances from market centers. He showed that given effective demand and cost structures associated with various distances from the center, each producer would bid different amounts for land at successive distances, with the market allocating land to the highest bidders. He used this to show that dairy producers, whose product was more perishable, heavier and in higher demand, would locate closer to the center, while grain producers would locate at middle distances, and forest products producers on the far outskirts. The result is a general equilibrium allocation of land among potential producers.

Another stream of micro-economic location models attempts to understand how transportation costs affect the location of producers. Building on a newer generation of neoclassical micro-economic models, Weber (1929), working on the theory that producers (mainly manufacturers) would seek to minimize transportation costs, developed models of trade-offs between locating nearer to raw material sources or nearer to end markets. Losch (1954) generalized the theory to articulate a central place theory, and Isard (1956) introduced the more abstract notion of friction of distance, placing all differentials in factor and market access costs into a single transportation cost vector. Since that time, many variations have been made to these basic models, adopting them to service sectors, high tech, and special markets or circumstances. Many empirical studies have been conducted to test such theories, with interesting results. For instance, Hekman (1978) showed that over the course of a century, US steel producers were increasingly attracted to sites near end markets rather than near coal or iron ore, and Markusen (1991) showed that because government is a dominant consumer, the locational map of US aerospace capacity is highly shaped by unusual state-based imperatives.

This well-developed body of location theory serves as a companion to export base theory, in that most states and local government seek to develop a distinctive export base by spending the greatest share of their energies recruiting and targeting private sector firms. A good recruiting effort will often involve detailed analyses of courted firm's financial condition, product or service line, expansion plans, competitors and an understanding of the larger industrial context in which it operates (Markusen, 1994). Large firm siting of new establishments has become a business highly mediated by site consultants, who often exploit information asymmetries to the disadvantage of competing governments (Leroy, 2005; Markusen and Nesse, 2007), a development we review in the final chapter.

In comparison to this focus – both in theory and in practice – on firms and their investment and location decisions, the choices made by individual workers and households have received relatively little attention within the economic development field. Largely overlooked is the possibility that export base expansion may also result from residents' decisions to start new firms and from burgeoning pools of skilled labor formed via many individual workers' decisions to acquire skills and live in the region. To limit key targets of economic development efforts to firms only, especially those outside of the region, is to unduly restrict economic development options for the region.

Individual workers and members of their households make ongoing choices regarding the acquisition of education and skills. Youthful households make decisions about where to reside, where to send their children to school, and how much energy to put into their children's learning at home. They decide whether to encourage their children to pursue post-secondary vocational training or college educations and whether to earn and set aside income for this purpose. Households and individuals may come from abroad to acquire good educations for themselves and their children, or from rural areas, or from low quality education states to higher quality ones. As adults, individuals decide whether to pursue additional skill formation and whether to do so through schools, apprenticeship programs, or on-the-job training. Some will choose career paths that involve greater skill acquisition up front, even at the cost of deferred income. Some will leave jobs, change careers or respond to a layoff by seeking additional education and training later in life. Workers and households also make decisions about where to deploy their human capital. Some make that decision when they leave home to go to college and then remain in their college towns after graduating. Large net in-migrations of scientists and engineers into California and other western states during the 1970s and 1980s appear equally driven by migration into the region for education purposes and by post-education job offers (Markusen and Yudken, 1992). Similarly, men and women choosing a military career, drawn relatively ubiquitously from around the country, often end up working in a region where they were based or mustered out (Long, 1976). Others make conscious choices, generally during early stages of their careers, to accept the best job offer wherever it may be, to move without a prior job offer to a region well-endowed with large labor pools and multiple employers in their fields, or to choose a region based on quality-of-life or family ties and then search for a job within it. Again on retirement, workers make decisions about where to live, often taking their pensions and other assets earned in one region and spending them in another.

The literature on labor migration theory assumes, for the most part, that workers follow jobs rather than vice-versa, despite some excellent early conceptual work pointing out that causality could run in either direction (Muth, 1971). Most neoclassical models of migration rely on prevailing wages to explain how workers sort themselves out across regions, and even if amenities are incorporated into the model, these are often proxied by only a single feature, such as climate. Yet, as we explore in greater depth in Chapter 6 below, it is increasingly obvious that large numbers of people at various ages are constraining where they are willing to live and work. Some will refuse a good job offer in a remote place where they would be too dependent on a single employer or industry, while others will highly value any one of dozens of environmental features, such as culture (from opera to the club scene), sports (spectator or participatory), clean air and clean water, in making their location choice.

The plurality of decisions that people make in acquiring and using their human capital offer policymakers a number of options for encouraging its accumulation and maintenance with the region. One approach is to "grow" it through investments in education, from early childhood through postgraduate studies. Governments, nonprofit and increasingly also for-profit organizations offer education and training services through an elaborate system of schools, vocational schools, colleges and universities, web-based curricula and workforce development programs. Regions rich in educational options are more likely to achieve baseline levels of workforce human capital necessary to attract and sustain knowledge-based economic activity. They also give workers and their employers a wider array of opportunities to update and upgrade their skills as the economy changes, enhancing a region's economic resilience.

But because people can take their skills and human capital and move to other places, regions face the equal challenge of attracting and retaining human capital. Reflecting the traditional people-follow-jobs perspective, academic and policy discussions of the chronic problem of "brain drain" have typically revolved around a mismatch between a place's educational offerings and the needs of the local economy (see for example Gottlieb, 2001). But this understates the extent to which investments in quality of life may help regions attract and retain talent. Managers, skilled workers and individuals with entrepreneurial aspirations may make their own trade-offs between income prospects and quality-of-life in choosing among cities. To the extent that quality-of-life matters, government must then balance investments in clean air, parks, cultural and sports facilities against investments (including tax expenditures) to attract and retain export-oriented employers. This need to attend to the consumption offerings in the region brings us back to the matter of export base theory and puts the consumption base squarely on the economic development agenda.

Economists have often assumed that physical capital, because fixed and lasting over long periods of time, is more likely to be committed to place than people. But in the past decade, the longevity of firms and establishments has also diminished, reflecting in part the accelerated obsolescence of physical capital and technology. Many communities have spent tax resources and subsidies, often mortgaging their futures, for manufacturing plants, call centers and privately-run prisons, only to find that the companies running them pull out after only a few years. Leroy (2005) has documented a large number of such cases. On the other hand, individuals also make significant investments in housing and social capital in communities, and value what Bolton (1992) identifies as "the sense of place." Many locally-educated individuals choose to stay in their communities, especially given work and family ties, and those who leave in their 20s may choose to return later in their work lives. We have no aggregate evidence on long-term commitment of either firms or individuals. But it should not be taken for granted that workers take locally-earned skills and run more often then do firms. We return to worker and household location choices as a factor in regional human capital formation in Chapter 6.

IV. Beyond the Mono-vision of Industries: Adding an Occupational Lens

Regional economies can be conceptualized as comprised of occupations, not just industries. We can, for instance, analyze employment as attached to enterprises grouped as industries (such as manufacturing, utilities, finance and so on). Or, we study it as grouped by occupations (managers, professionals, production, clerical, health care workers and so on). Each approach gives us a very different window into employment (Thompson and Thompson, 1985; Feser, 2003b; Markusen and Barbour, 2003). The first stresses what workers make--jobs are grouped by their attachment to output like software and steel. The second stresses what workers do--what their skills are and what activities they perform at work, as in writer, lawyer, doctor, home health aide, and so on. The former is in synch with an emphasis on physical capital and firm location calculus, while the latter with an emphasis on human capital and workers' location choice.

The increasing interest in an occupational approach reflects substantial and fundamental shifts in the way economic activity is organized within and across places. In the last several decades we have witnessed dramatic changes in the organization of the economy. Firms have restructured away from the multi-divisional, vertically integrated Chandlerian corporation that dominated most of the 20th century, in an effort to become "lean and mean" (Harrison 1996) and more responsive to market fluctuations. While the establishment of branch plants, satellite operations and joint ventures for research, production and distribution is not necessarily new, the extent to which firms are constantly shifting, reorganizing and recombining themselves on a global scale is. Companies like Boeing are emblematic of the "virtual corporation" – with top corporate executives in Chicago, scientists and engineers in Seattle, lobbyists and media consultants in Washington DC and New York, and skilled machinists and routine assemblers in far-flung locations from Kansas to China. This is also happening in countless, less dramatic instances as businesses shift toward flexible, network-based modes of organization (Powell 2001; Roberts 2004).

These changes have important implications for how skills and new ideas are utilized in the economy. First, the relationship between workers and employers has been weakened, with neither party committed to the other as it once was (Christopherson, 1990; Osterman, 1999). Workers – especially younger ones – increasingly expect to build careers that span employers and industries, lessening the incentives for firms to make investments in workers' skills, as the returns on those investments become increasingly uncertain. Firms are thus increasingly sensitive to the skills available in regional labor pools, while workers are more dependent on externalized training in universities, community colleges, and other educational providers, which are organized along skill and occupational lines.

Second, as outsourcing and subcontracting proliferate, skills are shared and cross-fertilized more liberally across industries. Actors and directors create videos for medical instrument companies, while software engineers program for film companies and arts organizations. Occupations that appear to be local-serving, because their sales are local, may in fact enhance the productivity of other export-oriented sectors in the regional economy. Function, skill and networks among skilled workers become more important than organization, and these are best studied via occupational groupings.

Third, the fast-paced and flexible economy places a premium on innovation and entrepreneurship. Firms large and small are constantly developing new ideas for proprietary products and services, which often have the effect of carrying them beyond previous industrial categories. The core skills and knowledge giving rise to these innovations, however, are likely to be occupationally grounded, a phenomenon we explore more fully in Chapter 7.

Finally, the digital revolution has made it easier to work from remote job sites, permitting many individuals greater autonomy in choosing locations based on amenities, connectivity and "lovability" (Penne and Shanahan, 1987: 135-8; Rodgers, 1989: Ch. 13; Florida, 2002; Markusen, 1996b). The explosive growth of relatively small cities in the US Intermountain West — e.g., Albuquerque, Boulder, Boise — is symptomatic of this potential, as is the clustering of key groups of professionals in Manhattan, Toronto and San Francisco, and "lone eagles" in rural communities (Beyers and Lindahl 1996). Workers are more likely to be committed to their city, region and neighborhood than to the firm or industry (Markusen, 1996a).

The consequence is that *industries* – aggregations of what products and services are made – are becoming less and less coherent as ways of viewing a region's economic activities. As firms reorganize themselves in ways that separate different functional activities spatially (Massey 1995; Christopherson and Storper 1986) and individuals and households make similar, semi-autonomous decisions about where to live and work, we can expect *occupational* structure to take on greater coherence as an indicator of urban economic activity.

In addition, the correspondence between industrial and occupational structures across regions is on the wane. Using data from eleven California metropolitan areas in the late 1990s, we found that industry structure was often a relatively poor predictor of urban occupational structure (Barbour and Markusen 2007). This is especially for the crucially important and fast-growing high-tech and business service export base industries (Table 2.1). The practical implication of this finding is that economic development planners cannot simply infer a region's occupational profile, skill and education requirements from industry structure alone. Regional economic intelligence must be developed by probing occupational structure in its own right.

Despite these reasons why occupations are becoming more important as a basis for thinking about regional economies, economic development practice remains largely stuck inside the industry box. A primary reason for this is because the data sources we use continue to privilege industries over occupations. Government sources of economic data developed historically in ways that gave primacy to industries and sectors over occupations and skills. Industry classification systems emerged in the 19th century as part of efforts by the Census Bureau to collect metrics such as output and employment from firms (Rhode 2001). Until the 1940s the Census Bureau generally classified occupations on the basis of their industry, as in "forestry workers," "bank workers" (Hecker, Pikulinski and Saunders 2001). By the 1950s industrial analysis had largely coalesced around the Standard Industrial Classification (SIC) system (which was replaced in the 1990s with the North American Industrial Classification System, or NAICS). By contrast, the various collectors of occupational employment data in the United States, from the military to the Census Bureau to the Bureau of Labor Statistics, operated under divergent classification schemes through the 1990s. Only with the system-wide adoption of the Standard Occupational Classification (SOC) system in 2001 has a comparable level of agreement over the categories of occupational analysis been reached. Despite enhanced attention to occupational analysis,[1] the number of sources for industry and industrial analysis continue to dwarf those for occupations.[2]

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[1] For example, the Occupational Employment Survey, an establishment-based survey of wages and occupational employment conducted jointly by the BLS and state employment

This has considerable implications for the way we think about the economy and what interventions are possible or desirable. After all, no economist, citizen or policymaker ever "sees" a regional economy. Instead, we develop mental maps for it, based on conceptual categories that frame its spatial, structural and organization dimensions. Such mental maps showcase certain decision-makers, or actors, as key to economic development.

Most Californians, for instance, think of the state's economy as big and diverse and as producing goods and services such as lumber, fruit and nuts, wines, electronics, software, aircraft, biotech substances, shipping services and so on. Generically, we can organize these productive outcomes as sectors or "industries." Industries are conceptual groupings of organizations (firms, trade associations), establishments, and decision-makers (owners, managers) who are bundled together by what they make and produce – by the resulting goods and services.

In rural northern California, for instance, a regional analysis might highlight the lumber industry and probe the behavior and economic viability of firms (for example, Georgia Pacific) and establishments (a particular Georgia Pacific mill, small family-run sawmills, small firms in the woodworking business) (Figure 2.1).[3] In Silicon Valley, it

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security agencies, was expanded significantly in the 1990s in terms of sample size and frequency.

[2] To some extent this reflects the relative ease of collecting industrial versus occupational data. For example, data on employment and wages collected from businesses' quarterly Unemployment Insurance (UI) filings are assigned a single industrial code for the entire establishment, whereas only one state (Alaska) requires employers to assign each UI-covered worker an occupational code.

[3] Economic development practice is also muddied by the tendency to conflate firms, which are the key decision-making unit in place-indifferent economic theory, with establishments, which are the key location target for economic developers. Firms are

would focus on the electronics, computing, aerospace and software sectors, including large firms such as Sun, Lockheed Martin, and IBM, and the many small and oft-mutating entrepreneurial firms (Gray, et al, 1999; Saxenian, 1994). In the Los Angeles area, it might center on a set of disparate industries – filmmaking, apparel, electronics and aerospace among them – with their mixes of large and small, locally and externally owned firms (Storper and Christopherson, 1987; Scott, 1984; Scott and Angel, 1987).

Such a depiction of a regional economy, its components and its key actors, however, constrains the vision of possible economic development initiatives. Economic models focus on the behavior of firms as key decision-makers within each industry, deciding what and how much to produce, how to market it, whom to hire and fire and train and where to locate their operations. This perspective has informed economic development interventions, such as incentives, fiscal and regulatory changes to attract new establishments (for example, design firms to Los Angeles), engender new firm start-ups (for example, dot.coms and biotech in Silicon Valley), or forestall closings or relocations away from a region (for example, lumber in northern counties).

Think now of a regional economy as consisting of people as workers and decision-makers. In this conception, we visualize and characterize economies by "what workers do, not what they make" (Thompson and Thompson, 1985; Feser, 2003b). These activities are captured in the notion of "occupation." Some workers manage entire

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non-spatial legal entities, while establishments are site-based operations of individual firms. A firm is a legally-constituted business organization with a decision-making structure – a board of directors, CEOs and other key managers – which may operate in several industries and in multiple locations. An establishment is a spatial unit of production that may comprise an entire firm or form only one unit in a far-flung empire. Managers of establishments make decisions within the hierarchy of the larger firm to which they belong.

chains of conceptualization, production and marketing processes (managers). Some create, implement and monitor technologies (scientists and engineers). Some develop, write, adapt and trouble-shoot information systems (systems analysts and software programmers). Some educate (teachers, trainers, coaches). Some adjudicate, advocate and make law (judges, lawyers, legislators). Some run, interact with and maintain machines (assembly line workers). Others build structures and repair them (craft workers). Others move commodities and services across space and out to consumers and other users (longshoremen, truckers, retail and wholesale and warehousing clerks). Yet others care for the sick, elderly, children (nurses, home care and child care workers). And yet others entertain us (musicians, athletes). And so on.

Imagine a mental map of a regional economy based primarily on occupation. With the "occupational lens", we might picture northern California as a region of foresters, sawyers, truckers, farmers, and B&B operators, among others (Figure 2.2). Silicon Valley would emerge as a region of technology managers, venture capitalists, aeronautical and electrical engineers, inspectors and testers, and commercial artists. Los Angeles would be a showcase of aircraft assemblers and engineers, sewing machine operators, broadcast technicians, camera operators, and musical instrument repairers. The occupational lens helps us to see the relatively unique pools of talent possessed by a region.

Each occupation – like industry, a conceptual category – is distinguished by its skill, educational content and work tasks. Individual workers are key decision-makers in an occupational framework, because they decide whether to acquire skills and how to deploy them, given their options in labor markets (another conceptualization; see Tilly and Tilly 1998, ch. 2). But other decision-makers are also important – those who supply skills and training, including schools and colleges and private sector firms. As an analogue to firm location theory, we offer an occupational location theory that explores the different tendencies of certain occupational groups to enter, leave or remain in specific regions, explored in Chapter 6.

Approaching economic development as an occupational rather than an industrial phenomenon opens up alternative paths for economic developers. For instance, when an industry is in structural decline because it is cheaper to produce elsewhere or because substitutes are destroying its market or because the market itself dries up (e.g., defense spending dives), working with occupational groups offers an alternative to simply trying to prevent plant closings or convincing firms to convert to new product lines. Rather than approach the problem of huge layoffs among aerospace workers as synonymous with an imploding aerospace industry, as southern Californians did in the 1990s, an occupational approach might have enabled a more creative and less expensive economic development approach. Engineers exiting aerospace, for instance, brought knowledge about exotic substances developed with military research dollars into sports and sportswear lines like golfing and athletic clothing. In the final chapter, we offer a more detailed discussion about how human capital-oriented local economic development strategies might be organized around occupations and occupational targeting.

V. The Need for Stereo Vision and a Portfolio Approach

In sum, then, economies need both physical and human capital to produce jobs, income and well-being for their residents. Those charged with shepherding the regional economy are faced with a wide range of possible investments and demands from diverse constituents. It is their job to balance competing interests and to try to maximize benefits with the limited resources at hand. Ideally, each possible economic development policy and deal will be subjected to a cost/benefit analysis, and its expected out weighed against other alternatives. But frankly, in economic development practice, we are a long way from realizing this type of portfolio approach. The export base model, with its focus on firm attraction and retention and its preoccupation with physical capital, remains a powerful mindset and the dominant way that economic developers conceive of the regional economy and its growth potential.

Integrating human capital formation more fully into analysis and policy is one important step in this direction. Some states and cities have already recognized this and moved to merge economic and workforce development agencies. In Minnesota, for instance, the state put its Department of Trade and Economic Development and its Department of Employment Security together in 2003, and the City of Minneapolis combined its urban planning, economic development and cultural affairs agencies into a single unit about the same time. But visions of how economic development policy might work across these arenas are still impoverished, and true integration has proved difficult to achieve. Minnesota's Department of Employment and Economic Development, for instance, still has two co-equal research directors, inherited from the old agencies. On the other hand, a growing number of universities and community colleges now make economic development an explicit part of their mission, focusing not just on traditional research and innovation activities, but also on linking educational offerings to the needs of the regional economy.

In addition to recognition and application of human capital theory, cities and regions need better data and tools to integrate the labor side in practice. In this chapter, we have shown how a current mental map of a regional economy, based on industries, can be coupled with a complementary map based on occupations. Introducing this "stereo vision" into economic development practice will raise awareness among policymakers and practitioners of how well alternative economic development strategies will match the supply of jobs by industry with the demand for jobs on the part of workers. Or to put it another way, how well potential employers' demands for workers match the existing and desired labor force in the region.

A savvy economic development strategy will take into account the determinants of workers' skill investment and migration choices and seek to direct them towards enhancing and retaining the region's skilled workforce. It will take into account both firms and individuals' preferences in competitive context, designing a portfolio of programs. Since workers, managers and entrepreneurs value quality-of-life as well as good pay and secure jobs, cities will attempt to distinguish themselves as consumption economies. Good economic development will consider the trade-offs among business recruitment, education and training, and amenities in allocating public tax and expenditures. And, it will balance distinctiveness with a need for diversification in regional economic structure, a topic we pursue in Chapter 3.

Figure 1. An Industry View of the Regional Economy: Industries, Establishments, Firms

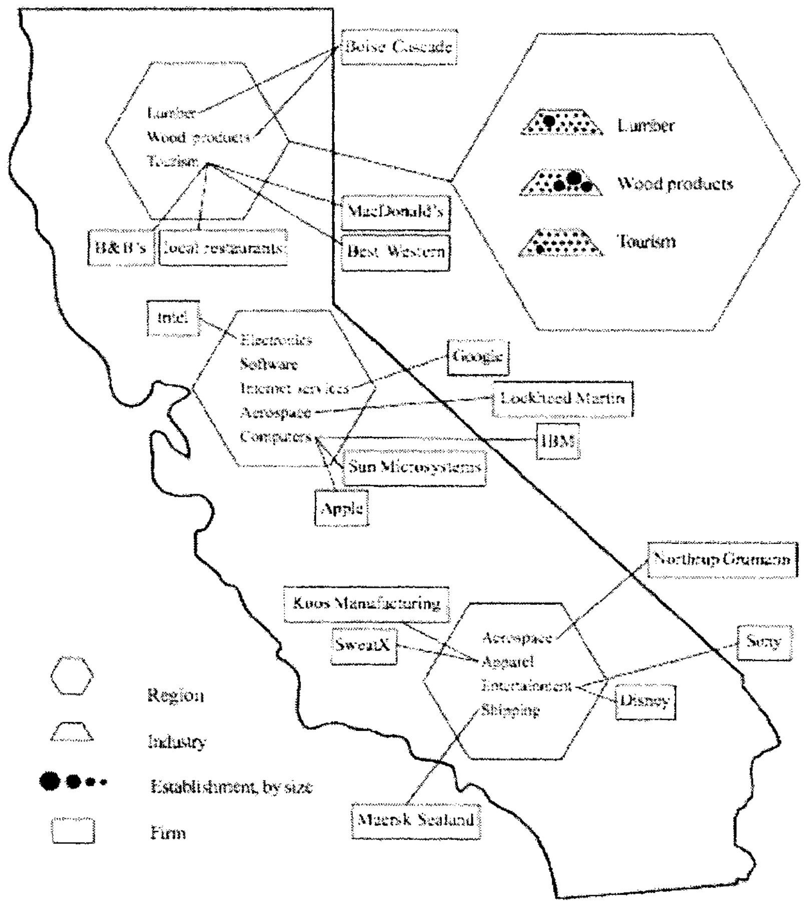

Figure 2. An Occupational View of the Regional Economy: Occupations, Workers, Occupational Organizations and Occupation-shaping Institutions

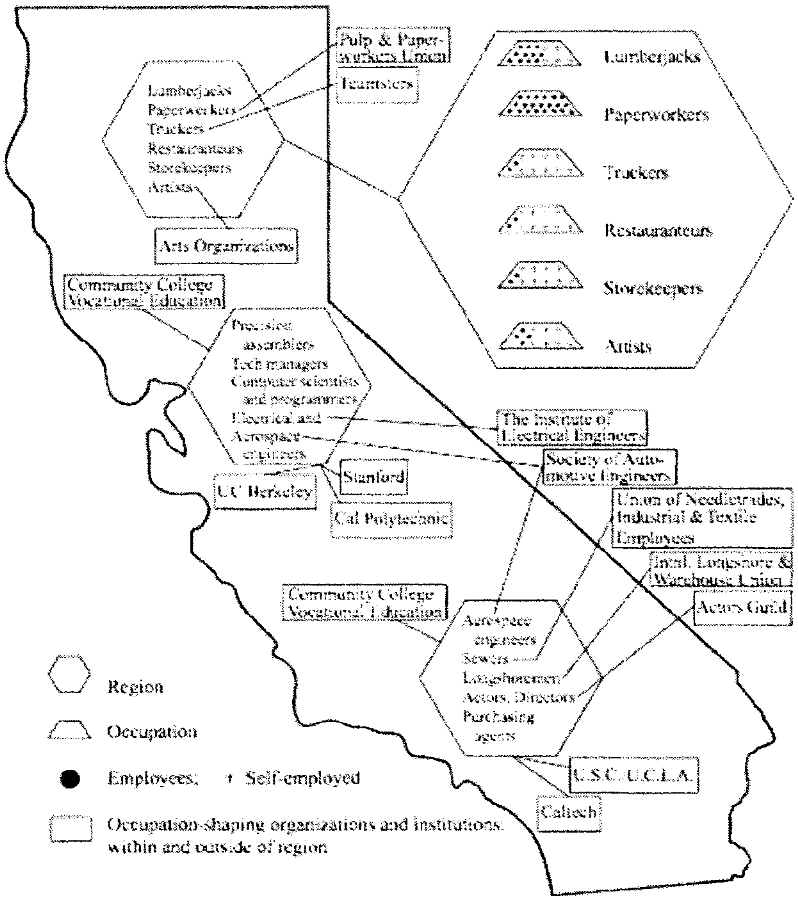

Table 2.1. Incidence of Three High-Tech-Related Occupation, Six California Metropolitan Areas, 1997

	San Francisco	San Jose	Oakland	Los Angeles	Orange	San Diego
Computer/IT Professionals						
Location Quotient	2.0	3.3	1.7	0.9	1.3	1.3
Employment Share Unexplained by Industry	32%	38%	33%	-25%	2%	11%
# Jobs Unexplained by Industry	8961	18348	8448	-13433	572	2277
Selected Engineers						
Location Quotient	1.2	4.6	1.7	0.9	1.5	1.7
Employment Share Unexplained by Industry	10%	37%	28%	-6%	10%	21%
# Jobs Unexplained by Industry	623	9888	2755	-1383	1104	2274
Natural Scientists						
Location Quotient	1.8	1.7	1.9	0.8	0.9	1.8
Employment Share Unexplained by Industry	33%	18%	37%	-12%	-4%	3%
# Jobs Unexplained by Industry	1504	756	1872	-1023	-125	142

Source: Barbour and Markusen, 2007. Data from California Employment Development Department, *Industry-Occupation Matrix*, and Bureau of Labor Statistics,*National Historical Industry-Occupation Matrix Time Series, 1983-1998*

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A Consumption Base Theory of Development: An Application to the Rural Cultural Economy

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Abstract

Export base theory—that overall growth is a function of external sales—dominates economic development practice. But the consumption base can also serve as a growth driver. Communities can make investments that will induce residents to divert expenditures into local purchases, attract new and footloose residents and tourists, and revitalize aging town centers. I present the analytics for a consumption base theory and demonstrate how cultural investments prompt growth. Elements of rural cultural strategy are reviewed, emphasizing the role of artists as leaders and arts councils as community facilitators.

I. Intro and Summary

Regional economists have long embraced an export base theory of growth and development, positing that the size of a local economy is constrained by the size of its economic base, or its ability to export output to other regions. The theory has been used for regions of all sorts, from large metropolitan areas to small towns and agricultural communities. In this paper, I argue that the consumption base—that portion of local economic activity that is sold to local residents—can also serve as a growth sector. I critique export base theory conceptually and empirically, showing that many quantitative studies do not confirm a causal relationship between export base expansion and overall growth. I explain why adding local consumption-serving economic activity might create more jobs and tax capacity. For rural communities, where economic survival is particular tough and spending on industrial recruitment has often had disappointing results, incentives for consumption activities such as health care clinics, retirement communities, casinos, and cultural centers offer an alterative path for growth and stability.

For rural areas, cultural facilities and programming provide a particularly vibrant form of locally oriented growth potential, for several reasons. First, residents may divert expenditures they would have spent on other forms of consumption elsewhere into local purchases that in turn support other local incomes. Second, they may attract relatively footloose artists who bring their own export sales (or grant-getting abilities) with them in relocating to the community and who may bring new ideas and creativity to the region. Third, if successful in the local market, they may begin to attract tourists to the locality.

Fourth, if located in historic downtowns, they may revitalize main street and spur other retail investments and arts-unrelated visits.

Through a set of case studies of small towns and rural areas in Minnesota, I show how three types of investment in physical capital—artists' centers, artists' live/work buildings, and performing arts centers—have increased local spending, attracted artists as residents, and eventually drawn in consumers, mainly from surrounding areas. Actions that rural areas can take to develop a cultural strategy are reviewed, emphasizing the role of artists as leaders and arts councils as community facilitators.

II. Theory: Turning Export Base on its Head

The prominence of export base theory unduly restricts strategies for regional economic development for both urban and rural cases. In this section, I argue that economic base theory is neither theoretically nor empirically as powerful as practitioners generally believe. I offer a consumption base alternative theory, laying out the rationale for increments in locally-oriented consumption activities as growth drivers. I demonstrate the mechanics of the model with a hypothetical example.

A. The Debatable Primacy of Export Base Growth Theory

In economic development, economists and practitioners have long treated the export base as the engine of development, for spatial units as large as national economies and as small as tiny rural towns. Ever since Douglas North's (1955) elegant statement of it, indebted to Harold Innis' (1930) staples theory, the export base argument goes more or less as follows. In a trade-integrated world, regions outside of one's own are superior producers of many goods and services locally consumed, and in order to be able to pay for these imports, the region must specialize in certain exportable goods and services. In the mid-20th century world, with its sophisticated globe-transcending transportation systems that reached far into little hamlet everywhere, the power of this theory was manifest, especially in rural areas. Mining towns became ghost towns once their singular export was tapped out. Farm communities, despite exporting ever more quantities of agricultural produce, could not find jobs for residents made redundant by huge gains in productivity. Economists codified the theory into the economic base model, ubiquitously used even today in multiplier analysis.

Nevertheless, from the beginning, the theory had its critics. In his famous debate with North, Charles Tiebout (1956) pointed out an obvious logical flaw in the theory: the world economy as a whole does not export. In addition, a regional economy's ability to provide for itself increases as its income from exports grows, resulting in import substitution. Tiebout also argued that people have different consumption patterns in different regions, complicating the model's application. But more importantly, Tiebout argued for an endogenous theory. Harkening back to Adam Smith, he posited that an elaborating internal division of labor could spur regional growth without export growth. His theory was brilliantly applied by Diane Lindstrom (1978) in her famous book on the early Philadelphia region, where she showed that a relatively autarchic region grew robustly from growing synergies between diversified farming and more urban manufacturing industries.

Subsequently, practitioners of economic development vigorously debated and experimented with import substitution and export-based strategies for regional and national development, especially in the developing world. Many industrialized countries, among them the US and Japan, nurtured their early industrial economies behind large tariff barriers and succeeded in important substitution on a massive scale. In the 1970s and 1980s, Latin American countries in particular tried to follow this path. Import-substitution strategies have been recommended for rural US areas as well (Rasker, 1995; Lindahl, 1994). But the apparent failure of import substitution in the postwar period in Latin America brought an emphasis on export base strategies back into fashion.

Yet the evidence on the relationship between output growth and export growth is far from established. In recent decades, economists working in international development have begun to question the lead role of exports in explaining GDP growth for both developing and developed countries. As early as the 1960s, Ball (1962) argued that export expansion could retard domestic development by siphoning off investment. Others have argued that exports may be a consequence rather than a cause of economic growth. In a number of carefully constructed empirical tests, scholars find mixed evidence on both the existence of a relationship and the direction of causality. Jung and Marshall (1985) find that for 37 developing countries, evidence on the period 1950-81 supports the export promotion thesis in only four cases; five countries reduced exports with growth, while four countries experienced export growth with output reduction. Ghartey (1993) finds that export-driven development appears to explain growth in Taiwan but not Japan or the US. In a five-country study, Sharma, Norris and Wai-Wah-Cheung (1991) find that Japan and Germany experienced export led growth from 1960 to 1987 but in the US and the UK, output growth appears to have induced export growth. There is thus room to explore alternative theories of regional growth, including the possibility that changes in consumption patterns can drive employment expansion.

B. Elements of a Consumption Base Growth Theory

Small rural areas have been constrained in their development strategies by the heavy hand of export base theory. Incentives have been focused principally on wooing manufacturing plants, inducing further local processing of resource-based commodities, and attracting tourists. In some places, these efforts have borne fruit, but many others have little to show for them. Unwarranted focus on exports produces lopsided strategies that fail to consider other sources of growth. In this section, I lay out the argument for the local consumption base as a source of income and growth, working through recent tourism and retiree contributions to make a more general argument about the potential for re-shaping consumption practices of existing residents and using the case of the cultural sector as an example.

The export base theory is a highly stylized formulation. Before tourism became acknowledged as an important source of income and employment, the theory conceptualized exports as consisting principally of raw materials and manufactured products physically sold to producers and consumers in other regions. In the 1980s, as resource exhaustion, tremendous gains in agricultural productivity and industrial restructuring revealed the limits to such strategies, economic developers began extending the economic base conception to include services, especially tourism. The spectacular growth of Las Vegas in the 1980s, still in the 1990s the fastest growing US metro, suggested that visitors coming to consume services locally, bringing their dollars from elsewhere, could be considered a type of economic base activity. But it could just have easily been conceptualized as local consumption—indeed, tourism scholarship stresses the joint consumption of local entertainment (gambling, music, theater, sports, and other attractions) by visitors and locals alike (Fainstein and Gladstone, (1999). Tourism has received attention in rural areas as well (English, Marcoullier, and Cordell, 2000).

The export base formulation has been further stretched by its application to retirement migration. The Social Security legislation of the 1930s de-linked retiree support from family structures and communities wherein retirees had earned their incomes. Since then, many cities and smaller rural towns have grown dramatically by attracting retirees, drawn by environmental features and lower costs of living (Nelson, 1997; Vias, 1999). A rural economic base model created by Nelson and Beyers (1998) includes non-earned income and assumes that it is exogenously derived. In one recent master's thesis, the retiree sector is modeled explicitly as a portion of the economic base (Nesse, 2006). Nesse points out that unearned income--rents, dividends, transfer payments (including social security and medicare--, i.e. non-wage and salary income) now comprises 60% of non-metropolitan income in the US, compared with 49% in metro areas (Nesse, 2006, p. 2). In Nesse's formulation, rather than conceptualizing retirees' incomes as imported into the community, employment attributable to retirees' local consumption is seen as exported to savings accounts and government coffers elsewhere. From a policy point of view, the significance of investments in the quality of locally consumed goods and services (health care, housing, amenities, culture) is more clear if retirees are anticipated to be drawn to such features rather than treated as asset- and entitlement-rich individuals to be recruited without regard to local quality of life.

Very few theorists have treated local consumption sectors as a source of longer term growth and diversification, although Jane Jacobs' (1984) vision of early urban development contains the seeds of such a view. A recent study by Cortright (2002) makes the case for distinctive local consumption as a source of growth, probing the case of specialty breweries in Portland as an example. Cortright's causal argument involves the innovative potential of such activities. In his brewing example, Cortright argues that micro-breweries' experiments for the local Portland market (flush with avid beer-drinkers) eventually created quality brews that found an export market. Yet once again, local consumption is here important only for its facilitative contribution to new products for the export base.

But suppose that local consumption patterns change in favor of locally-produced goods and services, causing an increase in local employment without any augmentation in the economic base? Import substitution theorists always assumed that consumption tastes and preferences were fixed; the strategy sought to replace imports with similar goods and services produced locally. In the cultural sphere, import substitution could be conceptualized as meeting latent demand for new types of goods and services– demand that would be effective if the opportunity to participate were offered.

But it is quite plausible that consumption patterns may change to favor locally produced output, and such changes might be susceptible to policy influence. In recent work on changing employment patterns in large US metro areas, Markusen and Schrock (2006b) found that local consumption-related occupations increased their share of total metro employment across the board, quite dramatically, in the 1990s (Table 1). If import penetration is relentlessly increasing, as globalization advocates suggests, then export base of a relatively open regional economy, especially for smaller towns, should be forced to specialize more than ever before, increasing the share of jobs attributed to exports. Markusen and Schrock attribute this contrary finding to several factors: changing family and work patterns that increase demand for previously self-provided family goods and services; the aging of the population and new medical techniques, which have dramatically increased the demand for health care and home care; increasing and job-displacing productivity gains in export-based sectors; and low pay and low productivity in many local consumption sectors, creating more jobs per sales than in the more competitive, traded sectors.

Local leaders can increase employment in their rural economies by providing better consumption opportunities locally that will then alter the consumption patterns of residents and result in a form of import substitution. Others have argued for a focus on the local consumption base in rural areas, but chiefly by emphasizing import substitute in retail and services. For example, encouraging the construction of a local nursing home or senior apartments can stem the out-migration of the aging to other communities. Fostering local health care clinics can achieve the same result, raising demand for related retail such as pharmacies (Wenzl, 2003). My argument regarding culture goes further than this. It poses the possibility of policy-induced changes in the consumption basket mix. Providing better local cultural and entertainment opportunities for people can divert the consumer dollar from expenditures for travel elsewhere or trips to large shopping malls to buy imported goods in favor of local expenditures.

The insight that changes in local consumption patterns can dramatically spur small town development has come to me over the years in observing a Native American casino near my family home in northern Minnesota. Originally built on an interstate freeway between the Twin Cities and Duluth, and aimed at tourists, the Fond Du Lac casino chiefly attracts non-Indian people from the surrounding counties who enjoy the activity, sociability, and good food available, an alternative to the sour-smelling bars and greasy spoon restaurants in their communities. People who would otherwise drive farther, to Duluth for instance, to spend their discretionary incomes on purchases of durable goods like TVs, new cars, and other household items, are instead deferring consumption of such imports to spend time at the casino multiple times a week. They may not spend much per visit, but it adds up. With their profits, the Fond du Lac Ojibwe tribe has built a beautiful community college (that serves both Indians and whites), a K-12 school, and a community center; is diversifying into gas stations; and is buying up land the reservation lost in former decades to questionable land deals. The casino, a labor-intensive activity, has provided jobs for many people, Indian and white.

A final point about the consumption base as a source of employment and income growth concerns the size of the associated multiplier, or what I call the labor intensity corollary. Export base theory assumes that the same multiplier applies to all basic activity, regardless of sector. But many locally-consumed services such as health care, home care and live entertainment (less so, new housing construction) are very labor intensive. A large portion of the consumer dollar spent on these activities goes directly into local wallets. Compared to expenditures at a shopping mall or for a new home, which must cover large increments of imported goods and services, some locally-provided consumption activities employ more people and possess a larger multiplier effect. A crucial assumption is that the shift toward arts and cultural consumption locally does not come at the expense of other local purchases (the opposite of assumptions made in analyses of sports stadia in metropolitan areas by economist critics (e.g. Noll and Zimbalist, 1997).

This insight is an analogue to a hypothesis consistent with an anomaly found in the literature on employment effects of minimal wage hikes (Markusen, Ebert and Cameron, 2004a, 2004b): despite the predictions of microeconomic models that a higher minimum wage will result in lower employment, in every case of either national or state increases over the past two decades, economists have not observed a decline in employment, all other things accounted for. The market model fails to take into account the specific consumption behavior of low wage workers, who spend most of their wage increments quickly and locally, creating new demand that makes up for the slight negative movement back up the conceptual demand curve. Kendall and Pigozzi (1994) found that rural residents have a high propensity to spend non-employment income locally, though they do not address the labor-intensity of the local activities where spent.

C. The Mechanics of the Argument

These arguments turn the economic base model on its head. In conventional export base model, local consumption-related employment is assumed to have a fixed relationship to total employment and thus to export employment as well, generally (though not theoretically necessary) conceptualized as a linear relationship:

Simple Export Base Model

$E = E_X + E_C$

where E_X: export-related employment
E_C: local consumption-related employment
E: total employment

and

$E_C = f(E) = \alpha E$ where α is an estimated parameter

and combining:

$E_X = (1-\alpha)E$

$1/(1-\alpha)E_X = E$

Multiplier: $1/(1-\alpha)$

Estimated total employment growth given export growth anticipated:

$\partial E = 1/(1-\alpha)\ (\partial E_X)$

If the second equation in this two-equation model is discarded, i.e. if local consumption-related employment is not a function of total employment, but a variable given local investments in infrastructure and migration subsidies, the reduction to a simple export-based multiplier is impossible. In this case, an increase (or decrease) in employment could result from either endogenous changes in tastes and preferences for locally-produced versions of imported goods and services or changes in the demand for exports. An increase in export-based employment could still cause additional local consumption-related employment, but total employment growth is no longer reliant on exports alone:

$\partial E = 1/(1-\alpha)\ (\partial E_X + \partial E_c)$

and the size of the multiplier will increase over time.

A cultural example that anticipates the argument in the following section of the paper will demonstrate. Suppose that in a rural county with 5,000 employed, the economic base is estimated conventionally to consist of 2,500 jobs, yielding a multiplier of 2.0 (Table 2). A very small arts and entertainment sector might employ 50 people—church music directors, commercial artists, website designers, dance and piano teachers, piano tuners and self-employed visual artists and writers. The sector is assumed to be local-serving because its location quotient is low (as we shall see), although this is not a reliable general rule, since extraordinarily high numbers of artists are self-employed. A five-year increase in export employment of 250 would presumably create 250 jobs, 5 of them in the local-serving arts and entertainment sector.

If, however, the county attracted fifteen artists to take up residence, by offering artist/live work space cheaply (as Paducah, Kentucky and Fergus Falls, Minnesota have), and if the creation of local arts facilities and events created the equivalent of ten additional jobs for local artists and related workers, an additional 25 jobs would be added to the local-serving sector. (Even though the in-migrating artists may wholly export their work elsewhere and should be considered increments to the export base, their numbers will not be able to compensate for a relatively low location quotient that continues to allocate this sector to the local-serving category). In turn, these twenty-five new arts and entertainment jobs will generate additional demand for local consumption goods and services. By applying the initial multiplier to these additional 25 jobs, we add another 25 jobs on the consumption side, for a total increase of 300 local-serving jobs, or 50 more than expected. In the latter year, this results in a tiny increase in the size of the multiplier as well.

III. Application to the Rural Cultural Sector

Acknowledging that non-wage income matters, that amenities help to attract retirees as well as tourists, and that tastes and preferences can be shaped by community culture and offerings, opens the possibilities for new local consumption-based types of economic development activity beyond the attempt to attract businesses that export goods and services elsewhere. The rural landscape is littered with costly public investment in business and industrial parks that remain underutilized or vacant. Rural development vision is continually constrained by looking only through the export base lens. Wenzl (2003) compiles a devastating case against the types of export base subsidies that have been used in rural Washington for the past two decades. The movement for reform of export base subsidy competition is growing in the US, as results are disappointing and the logic of such subsidies increasingly questioned (Markusen, 2006b).

Shoring up and expanding local consumption activities, whether for-profit or not-for-profit, can be a viable economic development strategy for rural areas. Investments in local health care facilities, including clinics and nursing homes, and senior housing can help to retain residents, attract new ones and ensure the health care and housing expenditures are partly recycled locally. Supporting local stores that emphasize local produce (e.g. organic meat and vegetables from nearby farms and farm-produced honey, jelly, wines) increases the multiplier of local consumer spending. Casinos capture resident consumer dollars that would otherwise likely be spent outside the region. Fighting for the retention of a rural school and creating day care, pre-school and after school programs can keep local property tax dollars going to local teacher and caretaker salaries.

A. Why Culture?

Cultural activities can add to this consumption base. Performances of theater and live music, shows of locally-created visual art, and readings of poetry and creative writing can generate modest revenues to generate increments to local income. Many rural communities have under-utilized physical assets, such as shuttered theaters, closed schools and churches, and abandoned commercial buildings that can at very little cost be revitalized as artist housing or studio space and as community performance and gallery spaces. They bring people into older downtowns and generate street use and patronage of neighboring businesses. Such cultural spaces and programming contribute to community welfare in many non-economic ways as well—broadening horizons, addressing difficult community issues through artistic expression, offering the artistically inclined an outlet for their talents and desires, integrating newcomers with existing community members, and adding humor and comraderie to community life.

Many rural communities, some showcased below, have invested in new cultural spaces as a way of revitalizing small town centers and inducing local consumption activities that draw people together and make the community a more attractive place to live and do business. Eventually, some succeed in modest tourist attraction, although generally not until local residents have embraced the new activities and patronize them continually. Even then, many "tourists" are residents of surrounding counties within an hours' drive. Nevertheless, they succeed in capturing consumption dollars that otherwise would have drained out of the region.

B. The Key Role of Artists

As with the general bias towards capital investments rather than human capital, cultural investments can mistakenly be viewed as simply a bricks and mortar affair. But my review of successful rural cultural developments in the state of Minnesota suggests that artists, as the key occupational group in the cultural sphere, are key to the success of rural cultural development strategies. Artists are important as rural residents, exporters of their work to other regions (thereby bringing income into the community that is spent in part locally), and catalysts for community arts activities.

Artists are an unusual occupational group in that they have very high rates of self-employment. Nationally, 39% of musicians, 50% of visual artists and 68% of writers are self-employed, compared with 8% of all Americans in the labor force (Table 3). In rural areas, the rate is even higher. Because of this, artists are relatively footloose and can choose where they wish to live and work. Writers and visual artists, because they tend to work by themselves, are more likely to live in rural areas then performing artists and musicians. Of course, artists disproportionately choose to live in larger cities, especially at young ages. However, a study of 1995-2000 Census net migration patterns comparing rural Minnesota and the Minneapolis/St. Paul metro area (Twin Cities) showed a remarkable life cycle pattern of movement back and forth from rural to urban and back again (Markusen and Johnson, 2006). In age cohorts 16 to 34, artists were net leavers of greater Minnesota, while the Twin Cities made net gains. Between the ages of 35 to 44, however, and again for those 65 and over, greater Minnesota had large net gains while the Twin Cities lost ground (Figure 1). Thus artists in mid-career and retirement stages of their lives are attracted to rural settings. Indeed, artistic densities in some rural regions of Minnesota were higher than in large swaths of suburbia around the Twin Cities (Markusen and Johnson, 2006: Figure 2). This suggests that efforts to attract artists back to rural areas and small towns may work, especially if targeted to those who have already completed their training and achieved visibility.

Why might artists favor small town and rural areas as places to live and work? Elsewhere, we hypothesize why artists might favor larger cities (Markusen and Schrock, 2006a). There are countervailing pulls on artists, however. For one, land and studio space is much more affordable. For another, rural areas often have vintage architecture – old farmhouses, older industrial buildings or warehouses, sometimes on rivers, aging commercial buildings and empty churches – that appeals aesthetically to artists. Some artists seek the isolation of rural areas, as a place to think, write poetry, paint, or compose music. Some are drawn to the sense of community that they believe is more accessible in rural areas. Some are attracted by active efforts of town leaders to welcome and provide space for them, as in Paducah, Kentucky's successful offer of artist live/work buildings to artists who would move there. Finally, small communities are the home of artists who already live there—people who have always created art work as an avocation, or have taken up art forms in the course of their lives.

An emphasis on artists as key actors and catalysts in rural areas reflects a new emphasis on occupational targeting in economic development practice. For decades, economists and planners have envisioned regional economies as consisting of firms and physical plants, organized into industries. In recent years, researchers have emphasized human capital as a complement to physical capital in economic development (Mather, 1999; Markusen, 2006a) and have argued for conceptualizing and measuring regional employment occupationally as well as industrially (Thompson and Thompson, 1985; Feser, 2003; Markusen, 2004).

C. Rural Artistic/Cultural Space Investments

As examples of the types of investments in artists and cultural space that have paid off for small towns and rural areas, I here summarize the experience of several among dozens of rural communities in Minnesota that have created artists' centers, artist live/work buildings, and performing and visual arts spaces. The examples are drawn from several state-wide qualitative studies (Markusen and Johnson, 2006; Cuesto, Gillespie, and Lillis, 2005) and a study of Lanesboro, Minnesota (Borrup, 2006). In passing, other recent case studies of rural arts activities as catalysts are noted.

1. Artists' Centers

An artists' center is a dedicated space where artists can periodically convene to find training, space and equipment to work, feedback from peers and mentors, and opportunities to present their work and interact with audiences (Markusen and Johnson, 2006). Artists' centers may be exclusive, with either ability to pay or expertise used as gatekeepers, but many artists' centers are by definition open to all comers without screening requirements and at very modest membership fees. In larger cities, such centers may be dedicated to particular artistic media, such as the Twin Cities' Loft Literary Center, Playwrights' Center, Textile Center, Northern Clay Center, Minnesota Center for Photography, and Highpoint Center for Printmaking. But in smaller towns, artists' centers tend to serve all disciplines and to enable more intimate encounters between artists and art lovers. They may also serve as performance or visual arts centers for the community.

The New York Mills Regional Cultural Center is an outstanding example of such a center in a very small, remote town (Markusen and Johnson, 2006: 91-94; Cuesta, Gillespie and Lillis, 2005: 36-40). In the late 1980s, visual artist John Davis moved to an abandoned farmhouse outside of New York Mills, a declining Finnish farming community three-and-a-half hours northwest of the Twin Cities. He started an artist's retreat, believing that visiting artists would bring creative ideas into the region while the idyllic rural atmosphere would enhance their work. Davis then sought out "the artist in every person in the county" in a campaign to convince community leaders, the city council, and a local landowner to renovate an 1885 brick building on Main Street as the New York Mills Regional Cultural Center that opened in 1992.

Today, the center hosts six to eight gallery exhibitions a year, some showcasing emerging local artists or historic community photos, and many performances. Visiting and area poets, authors, and storytellers share their work through readings and workshops. Traveling theater, music, and dance groups perform in the gallery. The center helps artists overcome the disadvantages of being far from a major city. A monthly forum brings together area artists to network and critique each other's work. In addition, the center works with other organizations to educate artists about the business side of the arts. Visiting artists offer such events as jazz improvisation workshops, build public sculptures with community members, and interact with community youth. People travel from miles around to attend events and participate in workshops, spending money locally.

The New York Mills Cultural Center now acts as a community and tourist hub. A tractor emblazoned on the New York Mills water tower heralds "cultivating the arts." By 2000, the tiny town's population had grown to 1,200, twice its pre-center size. Between

1992 and 1997, 17 new businesses opened and employment increased by 40%. The downtown landscape has changed dramatically, with a new medical clinic and renovated storefronts replacing the abandoned buildings.

2. Artists' Live/Work Buildings

Artists have special housing needs. Self-employed, many of them work at home and require spacious areas to perform or build structures, special rooms for storing materials, dark rooms, or sound-proofing for musical practice. And, such spaces need to be affordable. Over the years, many older industrial buildings in major cities have been converted into artist live-work spaces, but very few have been developed in rural areas.

Fergus Falls, Minnesota, a town of 13,000 180 miles northwest of the Twin Cities, opened a ten-unit mixed income artist live/work building in 2004. The building, the mainstreet Hotel Kaddatz, built in 1915 and operated until 1970, was renovated by Artspace, a Twin Cities' non-profit arts developer, after a local theater artist and now Director of the town's Center for the Arts, Rebecca Peterson, convinced city political and business leaders that such developments could reverse their declining city center as businesses moved to frontage roads along the Interstate. Peterson faced skepticism. The head of the Chamber of Commerce claimed that people in Fergus Falls were not interested in the arts-- "they're interested in hunting and fishing." Although he told her he wasn't interested in the arts himself, she pointed out that he sang in a barbershop chorus and his church choir. Peterson concluded, "People do support the arts...they just don't know it" (Cuesta, Gillespie and Lillis, 2005). The renovation, at \$2.4 million, generated an estimated \$2 million in revenues for local businesses. On its completion, ten artists who are new to the community moved in, and their basement floor gallery will complement the Center for the Arts that operates out of a renovated movie theater (Cuesta, Gillespie and Lillis, 2005: 32-33).

This Minnesota case is a smaller-scale version of an initiative in Paducah, Kentucky, a city of 27,000, where nearly 40 artists have moved in to transform a beat-up area of Lowertown homes into a blossoming art colony. Paducah literally gave away many of the tax delinquent or abandoned properties and also offered artists relocation incentives, including bonuses for landscaping and architect fees, generous fixed-rate loans from the local bank, discounts on building materials and friendly zoning changes. City officials estimated that the relocation program pumped an extra $12 to $15 million into the local economy in 2003 alone, much of it to local contractors and trades-people (Conklin, 2004).

3. Performing Arts Spaces

Many smaller towns have refurbished old theaters, churches or schools as performing arts (and sometimes visual arts) centers. A pioneering example is the tiny town of Lanesboro, Minnesota, population 788, two hours south of the Twin Cities. A farming and agricultural processing town (flour mills, canning factories), Lanesboro's population peaked around 1920 at 1,500 and reached a low of 600 after World War II and remained in that range for a half century. In the 1980s, citizens formed a Lanesboro Art Council and bought an old theater space, the St. Mane, on the virtually abandoned main street for $5,000, at first producing community events on a voluntary basis. They then convinced a native artist, Eric Bunge, away at graduate school in Denver, to return and start a theater company. The professional, non-profit Commonweal Theatre Company opened in 1989 with an eleven-week summer season. By 2004, it operated an eleven-month season with full-time staff and eight hundred subscribers, more than the town's population. One third of its audience is local, another third within a sixty-mile radius, and the final third from cities two and three hours away (Borrup, 2006).

As the theater began to draw from a larger catchment area, the Council added new arts facilities to the mix. In 1994, it opened the non-profit Cornucopia Art Center on Main Street, hosting exhibits and gallery sales of local artists. It won funding for a national Artist in Residency Program, bringing four to six artists to town annually to make new work and engagement the community. Currently, the community supports a music festival and an art-in-the-parks program and is advertising for visual and performing artists, musicians and writers, and other self-employed people to move to the town. By 2005, sales at the gallery were generating $12,000 a month, and the theater company's revenues were $200,000 a year. Thirty-eight of forty downtown storefronts were in full use by 2004—in the mid-1980s, thirty-eight were vacant.

A more recent performing arts center, the Jon Hassler Theater, hosting a professional theater company of that name, was added in the later half of the 1990s as a centerpiece in the effort to revitalize downtown Plainview, Minnesota, a southeastern town of 3,300. The complex houses the Theater, a Rural America Writers' Center and the Plainview Area History Center in two adjacent buildings that were once an International Harvestor implement showroom and an old church. The Hassler Theater has sponsored a summer playwriting workshop for teenagers, and in early 2005, a community theater group used the Hassler as a performance venue for the first time (Shifferd, 2005).

Performing arts facilities elsewhere have played a similar catalytic role for smaller towns and communities. In Blue Lake, California, a town of 1,200, the Dell-Arte Company has built a School of Physical theater that runs an MFA program and summer workshops, the Mad River Festival, an Education through Art program. It includes a 114-seat theater and shop space, studio space and library space that can be rented out to others in the community, and partners with local schools and colleges, credit unions, food coops and Native American and Latino centers (Leonard and Kilkelly, 2006). The professional ensemble Roadside Theater in Whitesburg, Kentucky, population 1,600, is another unique performing arts center. Founded in 1975 to focus on work that expresses the history and culture of Appalachia, it nurtures new work, offers workshops, tours plays, provides performing artist residencies, publishes books and supports community-developed plays (Leonard and Kilkelly, 2006). Both these performing arts centers have brought economic and cultural benefits to their communities.

These examples have much in common. Each was spearheaded by an artist, and most of these artists were newcomers to the region or returnees attracted back. Local citizens creating arts organizations or councils were often important sources of moral and economic support, and helped to bring city and business leaders around to making financial commitments. The cases all demonstrate the blurred boundary between export and local production. Although some of these communities characterize their cultural earnings as "tourism" and thus economic base activities, most patronage and expenditure actually comes from quite close by. These cultural facilities and programming have played a catalytic role on older downtowns in all cases. Regrettably, none of the authors of the case studies do a careful accounting of the size of investments and the rates of return over time—evidence of success is inferred from population growth, downtown revitalization, revenue growth of the presenting organizations, and the in-migration of artists.

IV. Implications for Economic Development Policy and Practice

The consumption base potential for stimulating longer term growth is considerable for communities of all sizes – large urban areas, small towns and rural places. I have theorized how investments in consumption base increments can help to recycle more existing income locally, creating jobs and tax capacity. Often, such investments have longer term payoffs because they attract new types of residents to town – both those who produce the activity and those who prefer to consume it. In this paper, I have used local cultural activities, reliant above all on local patronage, as a case study. Cultural activities, unlike some of the other types of consumer services such as health care clinics and nursing homes, have the potential to draw tourists also. And to the extent that footloose artists are attracted to the community as a residence, they bring in export income from their sales on the web, through national and international marketing, and by traveling to perform or sell at art fairs elsewhere.

Several types of initiatives can be taken by small and rural communities to nurture the cultural sector, even very tiny communities far from major population centers. First, investments can be made in refurbished or new cultural spaces that host artists and engage audiences. Older downtown or riverfront buildings are often ideal for this because they have almost no alternative use and are thus cheap, even considering the cost of refurbishing, and they often have historical and aesthetic value. Communities can identify and inventory existing assets that might be used in this fashion, including schools, colleges, churches, vacant industrial or warehousing buildings with character and space, especially those with powerful desirable spillover effects on activity in the immediate neighborhood.

But buildings alone are not enough. Investments must be linked to cultural programming that is both unique and tied to the communities' interests. Identify, and recruit from elsewhere if necessary, artists and other art lovers to provide leadership individually and as an arts council. Develop a strategic plan that envisions a unique cultural identity, consonant with the character of potential space and the likely tastes and preferences of the community. Reach out to everyone in the community, as John Davis in New York Mills and Rebecca Peterson in Fergus Falls did, to find the artists and art lovers and counter skepticism. Welcome newcomers with new ideas and energy. Search state, regional and private sector sources for funding for residencies and rehab moneys. Encourage (require) artist interaction with community as a return on investments you make in them. Provide technical assistance and marketing support for artists, art entrepreneurs and ensembles hoping to achieve success.

A culturally-based economic development initiative should be tailored to build on existing commercial and industrial economies. A new arts center on the interstate frontage road may not be as good an investment as a downtown refurbished building that brings people into the heart of town and enlivens local cafes and retail businesses. Link a cultural initiative with the notion of arts as amenities, often in tandem with environmental amenities (Lanesboro and Plainview, for instance, are both on gorgeous and well-traveled bike trails). Such amenities help local employers attract and retain good workers and draw artists and retirees to the area with their income streams.

Much more empirical work needs to be done to evaluate and compare industry-focused economic development initiatives with occupationally-based initiatives, and export base with consumption base strategies. Quasi-experimental methods could be used to compare longer-term trajectories of communities that invest in consumption base cultural strategies with those that do not and those that use their resources for alternative investments (Isserman and Beaumont, 1989). Until then, we are stuck with case studies and an apparent rapid rise in rural interest in culture as evidence of interest and effectiveness. Nevertheless, the proliferation of small communities that are pinning their hopes on new cultural investments for a largely local consumer base suggests that disappointing results with industrial recruitment are driving them to innovate in a surprising new direction.

In a recent study of the determinants of small and medium-sized city growth, the model includes the usual industrial structure variables, an education measure and four quality of life measures – temperature, precipitation, burglaries and larcenies, but no mention or measures of cultural activities (Erickcek and McKinney, 2004). That is not unusual for regional economic models. Perhaps a new generation of models will improve on this score.

Table 1. Occupational Localization, 50 Largest US Metros, 1980-2000

Occupational group	Index COL	% Change COL 1980-2000	E Growth US 1980-2000	Employmt US 2000
Economic base occupations (Index COL > 1.75)			**10%**	**22,889,810**
Farming, Fishing, and Forestry	3.26	23%	-37%	954,755
Life, Physical, and Social Science	2.36	20%	36%	1,203,513
Computer and Mathematical	2.35	20%	316%	3,162,637
Legal	2.01	-12%	112%	1,423,337
Arts, Design, Entertainment, Sports, Media	1.94	3%	61%	2,477,332
Craft and Assembly Production	1.85	20%	-17%	11,003,719
Engineering and Architecture	1.85	10%	15%	2,664,517
Non-basic/residentiary (Index COL < 1.75)			**40%**	**106,826,838**
Healthcare Support	1.55	41%	66%	2,579,656
Protective Service	1.54	2%	64%	2,553,136
Construction and Extraction	1.32	-28%	26%	7,150,604
Community and Social Services	1.14	-9%	81%	1,945,926
Installation, Maintenance, and Repair	0.93	1%	21%	5,110,115
Healthcare Practitioners and Technical	0.93	42%	69%	5,985,446
Food Preparation and Serving	0.92	-10%	33%	6,263,129
Business and Financial Operations	0.92	-2%	95%	5,551,438
Building and Grounds Cleaning and Mainten:	0.91	44%	25%	4,250,257
Transportation and Material Moving	0.89	4%	14%	7,959,078
Personal Care and Service	0.86	-11%	66%	3,630,598
Management	0.71	20%	69%	11,884,694
Education, Training, and Library	0.70	-5%	53%	7,331,579
Sales and Related	0.56	-29%	56%	14,604,836
Office and Administrative Support	0.42	-38%	13%	20,026,346
Total, all occupations			**33%**	**129,716,648**

Source: Ann Markusen and Greg Schrock, "The Distinctive City: Divergent Patterns in American Urban Growth, Hierarchy and Specialization." Urban Studies, Volume 43, No. 8, 2006. Authors' analysi of data from US Census Bureau, decennial Population Census PublicUse Microdata Sample (PUMS) 5% file, accessed from Integrated Public Use Microdata Series, Minnesota Population Center, University of Minnesota.

Table 2. Hypothetical Employment Change with Arts and Culture Sector

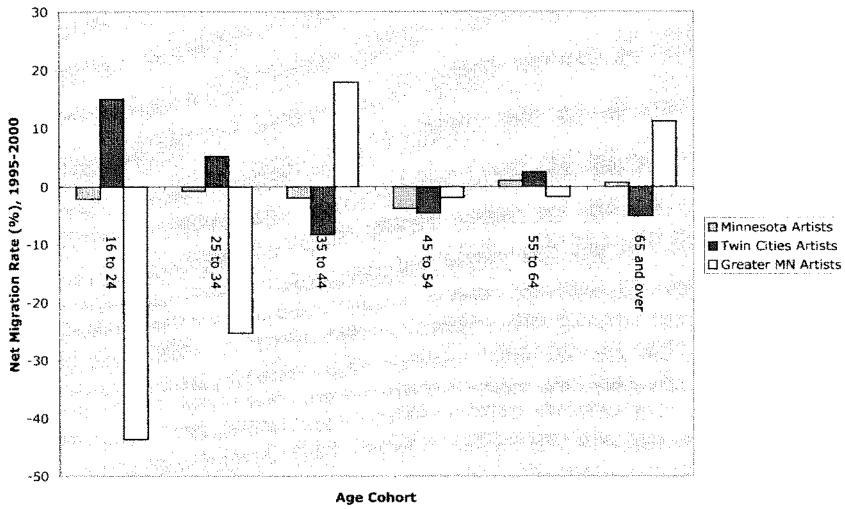
Industries	Year 1	Year 2 derived only	Change in employment	Year 2 migration, consumption shift	Change in Employment w migration, shifts
Export, all	2500	2750	250	2750	250
Local Consumption	2500	2750	250	2800	300
Arts, Entertainment	50	55	5	80	30
Derived demand			5		5
Net immigration					15
Consumption shift					10
Regional Employment	5000	5500	500	5550	550
Multiplier	2.00	2.00		2.02	

Table 3. Self-Employment, Artistic Occupations, United States, 2002

Occupational Title	Total Employment	Self-employed	% Self-employed	Primary job	Secondary job
Writers & authors	138,980	94,377	68%	80,509	13,868
Visual artists	307,254	155,159	50%	129,109	26,050
Artists and related workers	148,682	80,022	54%	70,731	9,291
Arts directors	50,664	27,139	54%	23,988	3,151
Fine artists: painters, sculptors, illustrators	23,192	12,866	55%	11,372	1,494
Multi-media artists & animators	74,826	40,017	53%	35,371	4,646
Photographers	130,442	68,432	52%	54,024	14,408
Camera operators, TV/Video/Motion picture	28,130	6,705	24%	4,354	2,351
Performing artists	176,463	42,724	24%	38,174	4,550
Actors	63,033	10,992	17%	9,754	1,238
Producers and directors	76,125	24,995	33%	21,683	3,312
Dancers & choreographers	37,305	6,737	18%	6,737	0
Dancers	19,992	3,854	19%	3,854	0
Choreographers	17,313	2,883	17%	2,883	0
Musicians, singers, composers	215,425	83,121	39%	56,770	26,351
Music directors & composers	54,271	21,354	39%	14,584	6,770
Musicians & singers	161,154	61,767	38%	42,186	19,581
Designers	531,921	168,806	32%	132,827	35,979
Commercial & industrial designers	51,823	16,088	31%	12,659	3,429
Fashion designers	14,844	4,353	29%	3,425	928
Floral designers	103,993	33,832	33%	26,621	7,211
Graphic designers	211,871	67,422	32%	53,052	14,370
Interior designers	60,050	19,325	32%	15,206	4,119
Merchandise displayers, window trimmers	77,221	23,881	31%	18,791	5,090
Set and exhibit designers	12,119	3,905	32%	3,073	832
Architects	136,378	29,678	22%	23,809	5,869
Architects, ex. landscape and naval	113,243	24,253	21%	19,457	4,796
Landscape architects	23,135	5,425	23%	4,352	1,073
Total, all artistic occupations	1,506,421	573,865	38%	461,198	112,667
Total, all occupations	144,013,600	11,451,600	8%	9,926,000	1,525,600

Source: Ann Markuen and Greg Schrock, "The Artistic Dividend: Urban Artistic Specialization and Economic Development Implications." Urban Studies, September, 2006, forthcoming. Data from Bureau of Labor Statistics, National Industry-Occupation Employment Matrix, http://www.bls.gov/emp/empoils.htm

Figure 1. Net Migration, Minnesota Artists By Region, Age Cohort



Source: Markusen, Ann and Amanda Johnson. 2006. *Artists' Centers: Evolution and Impact on Careers, Neighborhood, and Economies.* Minneapolis, MN: Project on Regional and Industrial Economics, University of Minnesota.

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Nine Concrete Ways to Curtail the Economic War Among the States

by
Greg LeRoy
Executive Director
Good Jobs First

Conference Paper for

"Reining in the Competition for Capital"

Humphrey Institute of Public Affairs
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Nine Concrete Ways to Curtail the Economic War Among the States[i]

by Greg LeRoy, Executive Director, Good Jobs First[1]

You could get very depressed thinking about how hard it is going to be to solve this crazy "candy store" mess. There are an awful lot of people with huge financial self-interests tied to the status quo: footloose corporations, site location consultants, accounting firms and tax consultants, industrial real estate brokers, mayors, governors, and building contractors.

Given how deeply entrenched this wasteful system has become, only an *organizing approach* to the problem can undo it. By organizing approach, I mean reforms that bring everyday taxpayers back into the process, that actively enable and encourage grassroots groups like community organizations, environmentalists and labor unions, as well as journalists and government watchdogs, to wade in. With all due respect to some who have proposed sweeping lawsuits or legislation that I would call "silver bullets," I don't think such ideas have a prayer up against a problem so deeply embedded as this one.[ii]

Reforms, of course, involve legislation. We need some new laws, but generally I favor fewer, simpler laws and stronger enforcement. Don't forget, today's candy store mess is a dream for lawyers and accountants, since it consists of so many hundreds of convoluted laws and tax gimmicks. We need a simpler body of laws that are based on common sense. Rules that everyone can understand and work with. Laws with clear intentions that courts cannot pervert.

Sunshine: The Best Antiseptic

The first two reforms we need involve disclosure. Taxpayers need to see how much money each company got – especially how much they got in tax breaks – *especially corporate income tax breaks that are usually hidden from public view!*

I'm adamant about disclosure because it's the cornerstone of reform. Think about other major reforms the U.S. has enacted in the past 40 years.

- When community groups alleged that banks were discriminating against neighborhoods with people of color or older housing stock – that the banks were

[1] Good Jobs First, www.goodjobsfirst.org, is a non-profit, non-partisan research and resource center promoting corporate and government accountability in economic development and smart growth for working families; it is based in Washington, DC.

"redlining" their communities and denying loans to worthy borrowers because of their race or their address – they demanded and won the Home Mortgage Disclosure Act. That law requires banks to disclosure the number and dollar value of all of their housing loans every year, by census tract. The outrageous discrimination revealed by the data soon led Congress to pass the Community Reinvestment Act, which has enabled hundreds of community groups to win billions of dollars for neighborhood revitalization from many of the nation's largest banks.

- When community groups and labor unions alleged that chemical factories and other big polluters were endangering their health with toxic emissions, they demanded and won the Toxic Right to Know law, which requires companies to disclose what they emit and how much. Using that data, coalitions have won hundreds of agreements with companies to reduce emissions and otherwise improve local safety.

- When the nation grew disgusted with Washington corruption during Watergate, taxpayers demanded to know who was giving money to politicians and how much. The resulting disclosure produces data compiled by the Federal Elections Commission. And while many people call our campaign finance system "legalized corruption," at least we know who bankrolls whom. Obviously, if we did not have that data, none of the more recent campaign finance laws, like McCain-Feingold, could have taken hold.

Reform #1: State Economic Development Subsidy Disclosure

By disclosure, I mean annual, company-specific, public reporting of costs and benefits. How much did each company get? Which subsidy program did the money come from? What did the company do with the money? How many jobs did it create? How well do the jobs pay? Do they provide healthcare?
Seems pretty simple, doesn't it? You'd think every state and city would be able to tell you those basic facts. But as we've seen in so many horror stories, most governors and mayors aren't watching the store. Some even pretend to perform cost-benefit analysis by adding up their own press releases.

Already, 12 states have enacted some form of economic development subsidy disclosure. The 12 states vary a lot in terms of the quality and completeness of their disclosure, but we certainly have enough experience now to talk about what works best. The 12 states are Connecticut, Illinois, Louisiana, Maine, Minnesota, Nebraska, North Carolina, North Dakota, Ohio, Texas, Washington state, and West Virginia. (You can see details about each state's disclosure law in Chapter 3 of our research manual, No More Secret Candy Store, at www.goodjobsfirst.org).

Now, just because your state isn't on the list doesn't mean you can't investigate. You can normally get quite a bit of information about deals in a state, especially if you are willing to wage a paper war under the state's Open Records Act or Freedom of Information Act. With a lot of time and persistence (and possibly some money for processing charges), you might be able to cobble together as much information as you could get quickly for free in a state with disclosure. But taxpayers shouldn't have to wage a costly paper war with bureaucrats; they should be able to quickly and easily find out where their economic development money is going and whether their taxpayer investments are paying off. That's what I mean by disclosure. Indeed, the information should be on the Web, just like it already is in some states.

Let's look at an example. Minnesota is one of my favorite disclosure states. Although the Gopher State's law does not cover corporate income tax breaks, it does cover lots of other subsidies – and the data is on the Web! Since its original law was passed in 1995 and improved twice later, hundreds of Minnesota deals have been disclosed every year. Here is an example of one deal, in Caledonia, Minnesota.

[pdf of Dairy Queen deal here]

So here we have a tax increment financing deal (box 11) worth $275,515 (box 16) to create one new job (box 17) at Dairy Queen (box 12) paying $4.50 an hour (box 18). Now, I don't know how many ice cream cones they sell in Caledonia in February, I mean, I really hope that's a full-year job. Healthcare? I doubt it. I suppose we should be grateful that the company is reporting an actual wage of $5.15 an hour, but then, that may be due to the federal minimum wage getting raised in the interim. But isn't that an awfully big subsidy for a poverty-wage job? Until the state enacted disclosure, Minnesotans didn't know there were deals like this happening.

Notice how unbureaucratic this disclosure system is. A city staff person fills in the top half of the form (based on its files from the original deal), then she calls the company and asks about jobs created and wages paid. Then she stuffs the sheet of paper in an envelope and mails it to the state Department of Trade and Economic Development in St. Paul, and DTED compiles the data into a spreadsheet. Or at least DTED used to compile the data on a spreadsheet that you could get under Freedom of Information, but since the forms have gotten a little longer, it just scans the forms into pdf and posts them on its website. You can see the last two years' worth at www.dted.state.mn.us/02x05f.asp.

Of course, I prefer a state's disclosure system to include corporate income tax breaks, and some already do. West Virginia has been reporting on every company that claims any major kind of corporate income tax credit for more than a dozen years. Maine has been disclosing three since it enacted disclosure in 1998. North Carolina enacted disclosure in 2002; you can see oodles of company-specific data at www.dor.state.nc.us/publications/williamslee.html.

Oh, yes, we need a little more info on the disclosure form. Will these jobs be accessible by public transportation? Does this deal involve a relocation? If so, from where and to where? Were the jobs accessible by public transportation before? Will they be accessible after the relocation? Otherwise, how do we know if the jobs are even available to low-income workers who cannot afford a car?

Reform #2: Disclosure to Corporate Shareholders of State Taxes Paid

Publicly traded companies (those that are listed on stock exchanges) already disclose how much they pay in federal income tax each year, in their annual reports and Forms 10-K. They also already disclose how much they pay in all state and local taxes, but they are only required to disclose the total from all 50 states in one aggregate number. So, for instance, it is not possible to determine, looking at General Motors' Form 10-K, how much its taxes have gone up or down in Michigan the past dozen years.

The solution would be simple: require publicly traded companies to include a 50-state matrix in their Form 10-K showing how much tax they paid in each state. Breaking it down into three categories in each state would be best: income tax, property tax, and sales, utility and excise taxes.

This would surely produce data that would grab people's attention. We already know from accountability campaigns in states such as Connecticut and New Jersey that many big companies there pay tiny amounts of income tax – as little as $200 a year, far less than low-income families – thanks to gimmicks like the Delaware royalty loophole.

If taxpayers learned that large companies in their state were paying almost no income tax, they would demand to know why, and that would inevitably lead them to question all of the tax gimmicks in the candy store. Indeed, a 1986 revelation by Citizens for Tax Justice that many huge corporations were paying zero federal income tax was memorialized in the famous poster: "I paid more income tax than General Electric, W. R. Grace, General Dynamics, Boeing and Dow Chemical Combined."

The ensuing outrage prompted a major progressive reform, closing some corporate loopholes; the 1986 law is considered the best thing to happen to the federal tax code in decades. There is a large body of evidence from both state-specific and national studies that companies are gaming state income tax codes even harder than Uncle Sam's. For example, the Center on Budget and Policy Priorities points out that in the second half of the 1990s, when the U.S. economy was sizzling, federal corporate income tax revenues grew an average of six percent a year. But *state* corporate income tax collections rose at just half that rate. Same companies, same profits, same years, half the tax.[iii] Combined reporting would solve much of that.

Reform #3: Clawbacks, or Money-Back Guarantees

A clawback rule or contract simply says that a company must hold up its end of the bargain or else taxpayers have some money-back protection. Eighteen states and dozens of cities already use clawbacks, which basically say: after a certain period of time after a company gets a subsidy (say two years), it must create so many jobs at such and such a wage and benefit level. The clawback may also require other public benefits such as a certain number of dollars invested to modernize a facility. Then, if the company does not meet the targets, taxpayers get paid back. The rule can be prorated so that, for example, if the company falls 10 percent short, it has to pay back 10 percent of the subsidy; it can also be set for a steeper penalty, if the company falls far short.

I can hear the business lobbyists wailing again about poisoning the "business climate." But I think just the opposite is true. From the mid-1980s to the mid-1990s, there was a string of lawsuits in which cities tried to get subsidy money back from companies that were shutting plants (Chicago vs. Hasbro/Playskool, Norwood, Ohio vs. General Motors, Duluth vs. Triangle, Yonkers vs. Otis Elevator, Ypsilanti Township vs. General Motors). The latter was best known: Ypsilanti Township alleged that statements made by GM in public hearings amounted to an oral contract obligating the company to stay in exchange for huge property tax breaks.

Now, given the prevailing business climate dogma, these lawsuits were huge events, with mayors risking their cities' reputations for being friendly to business. The lawsuits speak to incredible frustration and anger, even desperation. If the cities had negotiated clawbacks with the companies, it's unlikely there would have been any lawsuits, or angry statements or court pleadings. The companies' obligations would have been spelled out in black and white – just like any private-sector contract – and there would likely never have been a dispute. Clear obligations on both sides of the table and no litigation: isn't *that* a good business climate?

Reform #4: Job Quality Standards

Why give a company a subsidy and then allow it to pay a poverty wage? Lord knows the economy has been producing lots of lousy jobs all by itself. Subsidizing more only means taxpayers get stuck with even higher, hidden costs – in the form of food stamps, Medicaid, Earned Income Tax Credit, and housing assistance. Thanks to the living wage movement – and to good old common sense – this reform is already taking root. As of our last updated survey, at least 43 states, 41 cities and 5 counties now attach wage and/or healthcare requirements to economic development incentives.[iv]

I hasten to add that while these numbers have risen sharpy since I first started surveying for them in 1989, we still have a long way to go. Most jurisdictions still only apply these rules to one program – we found a total of 165, including 107 state rules – but if the 50 states have an average of 30 or more subsidies each, or a total of at least 1,500, that means about 93 percent of state subsidies still allow companies to pay, well, as little as that Dairy Queen in Caledonia, Minnesota.

Reform #5: Unified Development Budgets

About 35 states publish what is called a tax expenditure budget. That is, they provide the legislature with a report that says the state lost X dollars in revenue to A, B and C tax credits. But most of these reports are incomplete or unreliable. Incredibly, there is no standardized national set of accounting rules or guidelines for the states to track these expenses. (A group called the Government Finance Officers Association, which is the largest professional association of state and local treasurers and comptrollers, formed a committee to study the issue of subsidies in the late 1980s, but its work never went anywhere. The Government Accounting Standards Board, which sets guidelines for how governments should keep their books, has no firm rules telling states how to account for tax expenditures.)

It's a big issue because tax expenditures for economic development (i.e., companies claiming corporate income tax credits or sales or utility tax exemptions that remain undisclosed) often dwarf other forms of spending such as grants that do show up clearly in budgets because they require appropriations. It's no exaggeration to call appropriations the top of the iceberg and tax expenditures the bottom. So most state legislatures really are flying in the dark when it comes to the big picture. They don't really know how big the bottom of the iceberg is, much less what they are getting for it.

The solution is a unified development budget, as advocated for by groups in Texas, California, North Carolina and Illinois. A unified development budget provides legislators with a comprehensive inventory of all forms of spending for economic development, including all the tax breaks as well as all the appropriations. Illinois enacted a unified development budget requirement as part of its disclosure law in 2003, but the first such budget issued by the state was very incomplete. In other states, research groups have cobbled together their own versions, a tedious exercise requiring a lot of budget sleuthing.

Although there is not yet much experience with this safeguard, the idea is sound. Give taxpayers and lawmakers a document that puts the whole iceberg on the table every year or two. A document that treats tax breaks no differently than appropriations, that portrays them both correctly as simply different forms of the same thing: state spending. And then let people decide if they have the right balance. Chances are, with an accurate mapping of the whole iceberg, more people will turn their attention to the previously hidden bottom part, the secretive tax breaks, where most of the money is. Especially in times of budget deficits and fiscal strain, there is a better chance that legislators will look at both the top and the bottom as they seek to balance their budgets.

Reform #6: School Board Say on Abatements and TIF

As Good Jobs First documented in 2003, only two states effectively shield school funding from revenue losses caused by property tax abatements and revenue diversions caused by tax increment financing (TIF). A few states give school boards limited input or say, but the great majority give school boards no say in the process.[3] It's a big issue for school finance; although local revenue sources for schools are less important than they used to be, as states play a greater role, property taxes remain the largest single source of funding for K-12, and in some states, they still account for more than half. But with 43 states allowing abatements and 48 using TIF, the threat to school funding is present in every state.

It's crazy public policy when you think about it. Voters elect members of the school board and expect them to meet their obligation to educate the kids. But then along comes a city council or a county board doling out abatements or TIF, eating the school board's lunch. Call it an inter-governmental *free* lunch. Can you imagine the opposite happening: school boards unilaterally grabbing chunks of the budget for police and fire services?

Protecting education funding matters doubly for economic development. Good schools are a key amenity that help cities attract and retain good employers, especially those that require highly skilled (read well-paid) workers. And with the Baby Boom generation approaching retirement, the growth rate of the U.S. labor force is plummeting, suggesting that we face chronic skilled labor shortages. For both these reasons, those states and regions with good schools will be the economic development winners of the 21st century.

School boards should have a full voting seat on any board that abates or diverts property tax revenue away from schools. And school boards should have veto power over that portion of property tax that would be lost to the schools in each specific abatement or TIF deal.

Reform #7: A Federal "Carrot" Against Job Piracy

The federal government often uses the power of its purse as a "carrot" to entice the states to reform their programs. A fraction of federal highway funding was held back from states until they raised their legal drinking age to 21. The federal No Child Left Behind Act uses federal funds to encourage school reform (though many doubt its effectiveness).

There is no reason the same idea could not apply to economic development. Ten percent of a state's money from the U.S. Departments of Commerce and Labor could be held back until a state adopted certain reforms. Just a few strategic ones would suffice: a certification by the governor that the state will not use taxpayer dollars to pirate jobs from another state, and adoption of disclosure and a unified development budget.

Reform #8: Properly Define Site Location Consultants as Lobbyists

Miriam Webster's Collegiate Dictionary defines lobbying as "to attempt or influence or sway (as a public official) towards a desired action." That sure sounds like the work of a site location consultant to me, since the deals they orchestrate routinely involve the passage of local ordinances for property tax abatements, industrial revenue bonds and/or zoning, and bigger deals sometimes involve state legislation as well.

Site location consultants work both sides of the street; that is, they work for companies looking for places and places looking for companies. It's an apparent conflict of interest that allows them to profit by controlling the key information about a deal. It's like a trial lawyer who represents children who got cancer from a nearby chemical plant also working for the chemical company. Or better yet, like a Black Jack dealer who knows what your down card is.

Somehow, site location consultants have come to occupy a space where they defy norms about professional ethics and the proper representation of opposing parties. Let's be clear: there *are* opposing interests at play here: companies want to pick the public pocket for every dime they can get, and public officials (or at least most of them) are trying to land the deal while spending as little as possible. But the bargaining table is sloped sharply because the site location consultant controls all of the information between the company and the sites competing for the deal. And in some cases, the site location consultant has a monetary self-interest in upping the ante of subsidies because he is working on commission of up to 30 percent of the value of those subsidies.

To help remedy this, states ought to legally classify site location consultants as lobbyists. In many states, that would require them to disclose at least a little about their activities. More importantly, it would block them from receiving success fees - read commissions - and thereby remove their most outrageous incentive to fuel the candy-store arms race.

The long-term objective here is to split the profession into two. Site location consulting ought to consist of fish and fowl, i.e., consultants who work for companies and others who work for cities, counties and states. There should be a robust, adversarial process in which the taxpayers benefit from a side of the profession that specializes in aggressive bargaining, professional cost-benefit analysis, and cold market judgments about corporate behavior.

Remedy #9: Promote Smart Growth and Curtail the "Economic War Among the Suburbs"

In some respects, the "war among the states" alarm bell is misleading. Far more common than state-vs.-state competitions for deals like the Boeing 7E7 are deals in which two or three jurisdictions within the same metro area compete for a deal. Indeed, in a study we did looking at 29 subsidized corporate relocations in the Twin Cities metro area, contemporary evidence indicates that only one company even considered locating just across the state line in Wisconsin. Most relocating companies cannot afford to move to another state; they want to retain their workforce, and stay close to their customers and suppliers. They simply need more space or a better location within the same metro area.

But because a small number of competitions that occur between states get a lot of media attention - since they are the more unusual event and since they include high-profile events such as new auto assembly plants - the public is unaware that intra-regional competition is far more common. Only four states - Connecticut, Ohio, Minnesota and Maine - collect information about subsidized relocations as part of their disclosure systems, and none has ever analyzed the data. To their credit, local development officials in some regions, by informal arrangements, seek to deter the use of subsidies to pay for relocations within their areas.

States should deny subsidies altogether to retail deals (except in truly depressed inner-city markets that are demonstrably under served, that lack basic retail amenities such as groceries, drugs and clothes). Retail is not economic development; it's what happens if people have disposable income. (It has lousy upstream ripple effects - all those goods from China - and paltry downstream ripple effects, since retail jobs are overwhelmingly part-time, poverty wage without healthcare.) And big-box retail, which has become so expert at mongering subsidies, undermines existing retailers and a is primary cause of abandonment of urban core areas and the loss of open space at the suburban fringe.

States should also repeal point-of-sale sales tax collection rules. That is, they should not allow the city where a retail sale occurs to collect any share of the tax. Allowing one suburb to build a mall that sucks up sales tax revenue from the core city and dozens of surrounding suburbs simply undermines the tax base of older areas. And it creates a perverse incentive for another suburb to build yet another mall further out, and so the leap-frog sprawl continues. For the same reason, those states that allow sales tax to be "TIFed" should repeal it; that just puts the perverse incentive on steroids. In today's spread-out metro areas, people live in one jurisdiction, work in another and shop in a few others. Sales tax revenues ought to be shared statewide and regionally, reflecting that reality.

In metro areas, states should explicitly link economic development to public transportation, requiring that to get a subsidy, the project must be accessible by transit (i.e., within a quarter of a mile of a regularly served transit stop). That would reduce companies' ability to whipsaw suburbs against each other (by taking exclusionary suburbs out of the race), steer more jobs onto the transit system, help low-income families gain access to more jobs, give more commuters a choice about how to get to work, and improve air quality. In a 50-state survey, we found that not one state effectively coordinates any of its subsidy programs with public transit, even though the average state now has more than 30 subsidies. It's a huge wasted opportunity for transportation dollars to leverage smart growth, since states spend five times more on economic development than on public transportation.[vi] As of mid-2006, the Illinois legislature has passed a "location efficient incentives" bill, which now awaits the governor's signature. If he signs it, Illinois will become the first state to intentionally make such a link, giving a slightly larger state tax credit to deals located close to transit and/or affordable housing.
Finally, states should deny development subsidies (as Maryland does under its Smart Growth Act) to any kind of deal that is not located in an area that already has infrastructure. Making developers bear the full infrastructure cost of sprawling fringe development helps tip the scales in favor of urban reinvestment. If land use policies bring jobs and tax base back to older areas, there will be less need for subsidies to revitalize them as well.

Accountability and the "Business Climate"

I can hear the business lobbyists howling already. "This is invasion of taxpayer privacy. This will threaten small businesses. This will poison the business climate," they're crying. Well, to them, I say three things:

First, there is no evidence that any of the 11 states I have cited here have harmed their business climates by having disclosure. (Nor, for that matter, is there any evidence that any state has hurt its business climate with any other kind of reform I've cited, such as wage rules or money-back guarantee clawbacks.) As the person who has been out there publicizing these safeguards for 12 years, I think I would have been presented with such evidence if there was any, and I haven't.

Second, nothing proposed here will invade anyone's privacy or harm any small businesses. By disclosure, I am not talking about public release of any companies' state income tax returns. I am not talking about seeing a company's profits or losses, nor am I talking about disclosure of how much most companies paid in state income tax. But I do think that as a taxpayer, I ought to have the right to see how much a company claimed on a tax credit. Because when a company claims a credit and pays less income tax, it is the same thing as if the government wrote a check to the company for some other economic development purpose like a training grant. When a company claims an income tax credit, it means the company is paying less for public services, and I have to pay more, and I want to know how much more.

Third, lots of other kinds of tax breaks and subsidies are already public information. If a company gets a property tax abatement, I can see the details at the county tax assessor's office. If a company got a training grant, I can get that file at the Workforce Investment Board. If a company got a low-interest industrial revenue bond, I can go the county industrial development authority and get that information. Why should income tax credits be treated any differently? They were sold to us as "jobs, jobs, jobs," so we should be able to see how much those jobs are costing, period.

Endnotes

i. A somewhat more detailed version of these remedies was later published as Chapter 9 of *The Great American Jobs Scam: Corporate Tax Dodging and the Myth of Job Creation*, by Greg LeRoy (Berrett-Koehler 2005).

ii. In May 2006, the U.S. Supreme Court ruled in the case of *Cuno v. DaimlerChrysler*, ruling that the plaintiffs lacked standing in federal court to contest a state investment tax credit that a lower court had ruled unconstitutional. In a separate ruling, the Supreme Court upheld a ruling by the same lower court that a property tax abatement was constitutional.

iii. Michael Mazerov, Closing Three Common Corporate Income Tax Loopholes Could Raise Additional Revenue for Many States." Center on Budget and Policy Priorities, May 23, 2003, p. 3.

iv. Anna Purinton et al, *The Policy Shift to Good Jobs: States, Cities and Counties Attaching Job Quality Standards to Economic Development Subsidies*, Good Jobs First, 2003.

v. Good Jobs First for the National Education Association, *Protecting Public Education from Tax Giveaways to Corporations: Property Tax Abatements, Tax Increment Financing and Funding for Schools*, 2003.

vi. Mafruza Khan with Greg LeRoy, *Missing the Bus: How States Fail to Connect Economic Development with Public Transit*, Good Jobs First, 2003.

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Remarks of Erik R. Pages
President, EntreWorks Consulting

Before the U.S. House of Representatives Transportation and Infrastructure Subcommittee on Economic Development, Public Buildings and Emergency Management

"The State of Economic Development"
January 23, 2007

Madam Chair, Members of the Subcommittee, Thank you for inviting me to appear before you today. My name is Erik R. Pages, and I presently serve as President of EntreWorks Consulting, an economic development consulting firm based in Arlington, Virginia. I appear before you today to offer my perspective on the state of economic development, and the appropriate role of the federal government in supporting this critical mission. I hope that my comments will offer a unique perspective on this important topic. I have been involved in the field of economic development for more than twenty years, and have worked in a variety of settings. EntreWorks Consulting has worked with customers in twenty-eight states across the US. I have also worked on these issues while serving in positions at the US Economic Development Administration and as a staff member here in the US House of Representatives. In all of these settings, I have seen how Federal interest and investments can help catalyze regional economic development and transform communities.

My remarks today will focus on the Federal role in supporting economic development in rural America. My comments reflect my own experience working

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in rural regions, but also include insights from my colleagues at the RUPRI Center for Rural Entrepreneurship, where I serve as a Senior Fellow.

Rural America's Economic Development Challenges and Opportunities

As Subcommittee members certainly know, rural America faces a profound set of economic development challenges. The last few decades have seen an unprecedented flowering of wealth, innovation and entrepreneurship in the American economy. While there are some pockets of good news, much of this prosperity has bypassed rural America. Recent research shows that only 10% of American counties accounted for ¾ of the nation's job growth between 1993 and 2003.[1] Of those 310 high-growth counties, only eight are rural.

Rural regions also lag in their ability to generate new innovations and high growth entrepreneurial companies. These communities have large numbers of sole proprietors, but lag metro areas in terms of creating world-class companies that grow fast and generate major new innovations in products, services and technologies.[2] This small group of fast-growing firms creates the majority of new jobs and is the real engines of economic prosperity.

The basic contours of the rural economic story have been well covered in the press and in various studies. First, the key anchors of the rural economy—manufacturing, mining, and agriculture—have suffered declines in recent decades. These sectors have enjoyed productivity improvements, but technological change and offshoring have had the effect of reducing jobs here at home.

As economic anchors have crumbled, other community institutions have also been challenged. Leading institutions such as local banks, hospitals, and telecommunications providers have all been swept up in waves of consolidation. These institutions served as community anchors, often providing the people and the talent to lead community economic development work. Thus, the loss of a local bank or hospital is not just an economic loss. It contributes to a further erosion of civic leadership and capacity.

These trends coalesce and contribute to the continued brain drain, i.e. the exodus of talented young people who depart rural communities for better job and

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[1] Mark Drabenstott and Jason Henderson, "A New Rural Economy: A New Role for Public Policy," *The Main Street Economist*, Federal Reserve Bank of Kansas City. (Vol.1, Issue IV, 2006).

[2] Sarah Low, "Regional Asset Indicators: Entrepreneurial Breadth and Depth," *The Main Street Economist*, Federal Reserve Bank of Kansas City. (September 2004).

career opportunities in cities and suburban communities. Young people continue to form the largest cohort of individuals who migrate away from rural communities.

But not all of the news is bad. In fact, many rural regions appear to be on something of a comeback. While it is too early to "declare victory," some positive signs include the following:

- Population loss in rural communities appears to be slowing. Indeed, there appears to be something of a reverse migration occurring. For example, almost 71% of rural counties gained population during the 1990s.[3]
- Many rural communities are poised to succeed in emerging sectors such as biofuels, recreation, alternative energy, and niche and organic agriculture.
- Rural communities still retain many competitive advantages, such as lower housing costs and strong quality of life that appear to be assuming greater importance in the location decisions of many entrepreneurs, workers, and their families.

When we look at the rural economy, the bottom line is this: we face many significant challenges, but we also face a tremendous opportunity to improve the quality of life and to stimulate prosperity for millions of Americans who reside in small towns and rural communities.

The Way Ahead for Rural America

There is no one-size-fits-all solution for promoting economic development in rural America. In fact, it's pretty hard to develop a single monolithic definition of "rural America." After all, Jackson Hole, Wyoming, the Pine Ridge Indian Reservation, the Mississippi Delta, and the Iowa cornfields are all rural, yet they face widely differing economic, political and cultural circumstances.

So each community's solutions will be unique. But, they will share some common themes. First, solutions must be locally derived and locally driven. Local residents must be engaged in the process of designing and implementing new approaches to community transformation.

Second, solutions must focus on community transformation. Transforming a rural community will not occur via a single project or a new facility. This effort requires a holistic, comprehensive and long-term commitment to building a

[3] Kenneth Johnson, "Demographic Trends in Rural America." Carsey Institute Reports on Rural America. Vol. 1, No. 1. University of New Hampshire, 2006.

vibrant and livable community. Comprehensive solutions must include traditional economic development approaches, such as the development of infrastructure (such as broadband deployment or new water and sewer facilities) along with efforts to engage youth and develop civic leadership. And, new ideas do not always need to come from professional economic developers or elected officials. We need to engage a wider network of participants in this discussion. Social service providers, non-profits, educators, and average citizens must all be engaged in developing new ideas for rural development.

Third, solutions should seek to foster a spirit of innovation and entrepreneurship. Our objective must be not to simply create jobs, but to build a base for rural prosperity. Building prosperity requires that we support rural entrepreneurs who are seeking to build world-class businesses that will succeed in the global marketplace. These home-grown businesses are more likely to remain in the community, providing business leadership and generating wealth for the surrounding region.

Finally, proposed solutions must recognize the importance of regional approaches to economic development. While local grass-roots commitment is needed, this does not mean that each community must design its own unique economic development strategy. Cities and counties can no longer go it alone in terms of competing in the global economy. They need to compete as part of a larger region that can develop the scale, assets, and economic diversity needed to build prosperity.

Where Does the Federal Government Fit In?

No rural economic development strategy can be successful without strong, innovative grassroots leadership. Local leaders are the ones who must recognize the need for change and build partnerships that bring creativity and innovation to the heartland. However, given the challenges faced by most rural communities and regions, they need the federal government as a strong partner, investing in innovative and creative new strategies that are taking root in rural places.

Congress needs to assume a prominent leadership role in this effort. The past decade has witnessed a serious erosion of the federal government's ability to support innovative local economic development strategies. We must reverse these patterns and begin making real and sustained investments that help empower local communities. Specifically, the Subcommittee should consider the following recommendations:

1) Support Federal Investments in Economic Development
2) Support New Rural Development Strategies via the Farm Bill

3) Promote Regional Approaches
4) Support Open Immigration Policies
5) Expand Energy R&D Spending
6) Invest in Broadband Infrastructure

Let me now address each of these recommendations in greater detail:

1) *Support Federal Investments in Economic Development*

Many key federal agencies, such as the Economic Development Administration (EDA) and the Small Business Administration (SBA), have faced a decade of budget cutting. The Committee should reverse this trend and renew the Congress' commitment to these critical programs. The Committee should support efforts to maintain EDA's budget at the current level of $284 million and perhaps even support an expansion of EDA spending in Fiscal Year 2008. Committee members should also support legislation that that seeks to expand Federal investments in science, technology, and math (STEM) education. Finally, many critical SBA programs, such as the Small Business Development Centers and the Microloan program, provide invaluable help to rural entrepreneurs. These laudable initiatives should be expanded.

2) *Support New Rural Development Strategies via the Farm Bill*

Congress is now in the midst of reauthorizing the Farm Bill. This effort offers one of the best opportunities to support innovative approaches to rural development. Committee members should support creation of a new Rural Strategic Investment Program at the US Department of Agriculture. This program would provide support for the development of new regional rural development strategies and partnership across regions and sectors. Other initiatives worth consideration include proposals to enhance support for rural microenterprise and to create new individual development accounts (IDAs) targeted to residents of distressed rural regions.

3) *Promote Regional Approaches*

As noted above, regions are the key building blocks of a competitive economy. Subcommittee members should support approaches that encourage rural communities to collaborate at the regional level. This support can take several forms. First, all existing and new program investments should include incentives for the development of regional strategies. The Department of Labor's WIRED (Workforce Innovation in Regional Economic Development) offers one good example of efforts to promote regional approaches. EDA's Economic Development District (EDD) program also promotes a regional approach via support for the creation of Comprehensive Economic Development Strategies (CEDS).

Second, the Committee should further explore various proposals to create new regional development authorities (RDAs), based on the model of the Appalachian Regional Commission (ARC). Since its founding in the 1960s, the ARC has played a central role in alleviating poverty and economic distress in Appalachia. This success has spawned the creation of other RDAs such as the Delta Authority and the Denali Commission. More recently, Representative Michaud has proposed the creation of the Northeast Regional Economic Development Commission, and other Members have proposed RDAs for distressed regions of the Southeast and the Southwest Border region.

These RDAs make sense if they meet several criteria. They must serve areas of contiguous and consistent economic distress. Also, they must include creation of a strong staff capacity along with a relatively powerful role for the Federal co-chair. An effective RDA seeks to promote innovative approaches to regional development, and a strong staff capacity helps ensure that new ideas and creativity are introduced into the process. RDAs should not simply serve as another means for transferring Federal resources to state control. Successful RDAs are based on a real partnership between federal, state, and local officials.

4) *Support Open Immigration Policies*

The move of new immigrants to rural America is one of the bright spots on the rural economic landscape. In particular, more Latinos are moving to rural towns, especially in the Southeast and the Midwest. During the 1990s, Hispanics accounted for ¼ of job growth in rural America.[4] In some states, the demographic shift has been quite profound. For example, North Carolina's Hispanic population grew by 394% over the course of the 1990s. Forty-five percent of these new immigrants reside in rural counties. While this influx of new residents has created some challenges (such as school overcrowding), their predominant impact is positive. These new immigrants are starting exciting entrepreneurial ventures that will help strengthen rural economies.

5) *Expand Energy Research and Development Spending*

From a national policy perspective, it makes great sense to expand investments in alternative energy research such as biomass and hydrogen. These investments will also have a positive effect on rural communities who are well situated to benefit from such investments.

[4] Leif Jensen, "New Immigrant Settlements in Rural America," Carsey Institute Reports on Rural America. Vol. 1, No. 3. University of New Hampshire, 2006.

6) Invest in Broadband Infrastructure

Because they must often operate with substandard digital infrastructure, many rural businesses and entrepreneurs are competing as if they have one arm tied behind their backs. Congress should support efforts to invest in rural broadband infrastructure through existing programs at the EDA, the Department of Agriculture, and so on. Congress should also consider more expansive financing approaches such as the American Heartland Development Bank,[5] a $10 billion development bank devoted to investing in a host of infrastructure projects across rural America.

Madam Chair and Members of the Subcommittee, thank you for the opportunity to share my views with you today. I look forward to your questions and, if you need additional materials and information, I would be happy to provide them to the Subcommittee.

[5] This concept has been proposed in Joel Kotkin and Delore Zimmerman. *Rebuilding America's Economy: A Heartland Development Strategy*. Washington, DC: New America Foundation, 2006.

Erik Pages
President, EntreWorks Consulting

1. In your testimony you mention the impact of consolidation on various community institutions such as bank and hospitals. Would you please elaborate on your concerns about consolidation of these services and particularly the impact it has on economic development?

2. You also mention the term "community transformation" – please define that term and its importance in the economic development arena.

3. How do you define "rural" today? Has the definition changed over time?

4. To the best of your knowledge does EDA have a program specifically designed to address the needs of rural community's broadband infrastructure?

5. You emphasize the importance of regional approaches to economic development, as do the other witnesses today. As you know the subcommittee supports economic development districts (EDD's) and supports funding each year for their activities. Are we doing enough in that area?

6. You mention that 71% of rural counties actually gained population during the 1990's. Have you any data to explain why that increase occurred?

RESPONSE TO ADDITIONAL QUESTIONS
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Transportation and Infrastructure Subcommittee on Economic Development, Public Buildings and Emergency Management
Subcommittee Hearing, January 23, 2007
"The State of Economic Development"

QUESTIONS FOR ERIK PAGES

1) ANSWER: Corporate consolidation and the consolidation of leading institutions, such as schools or hospitals, can certainly hurt the quality of local services. But, they also have a pernicious effect on a community's civic capacity. These institutions, via their managers and employees, provided civic leadership in a variety of institutions, such as school boards, non-profits, and community organizations. The loss of this talent means that the quality of local leadership may also erode.

2) ANSWER: I use the term "community transformation" to refer to the goal of changing a community's economic, social, and civic capacity. This term highlights the shifting challenges facing economic developers. In the past, it was enough for economic developers to focus on job creation. If a community attracted or grew new jobs, other benefits were expected to result. Today, economic developers need to support job creation, but they also must attend to a community's civic capacity, leadership structures, and its capacity to develop and retain a top-quality workforce. Economic developers need a more holistic perspective on how to build community prosperity.

3) ANSWER: Unfortunately, there is no single definition of rural. Even federal agencies differ in how they classify different regions and different communities. As my colleagues at the Rural Policy Research Institute (RUPRI) have noted, most definitions include some mix of population size and density, level of urbanization, and location in relation to a larger metropolitan area. For me, the biggest change in understanding "rural" today is that a clear and distinctive dividing line between the rural and the urban/suburban economy is no longer possible. These economies are now tightly linked via commuting patterns, supply chains, and other economic connections.

4) ANSWER: To my knowledge, EDA does not have a program specifically targeted to support rural broadband infrastructure. However, it appears that EDA could support such investments under its current statutes. Funding for such programs has been available from the National Telecommunications and Information Administration (until 2004) and the Department of Agriculture's Rural Development Broadband Loan program.

5) ANSWER: The Economic Development Districts (EDD) program is a cornerstone initiative for EDA, and an important component in Federal efforts to encourage regional planning and thinking. As part of our efforts to encourage the development of regional economic development solutions, the Subcommittee should continue to support and robustly fund the EDD program.

6) ANSWER: The 1990s gain in population among 71% of rural counties appears to result from three trends. Increased immigration, especially among Hispanics, is affecting rural population trends. In addition, counties with amenities and recreational opportunities are attracting in-migration from retirees and others. Finally, many of these non-metropolitan counties are located near booming metropolitan areas. Their growth results from out-migration from the central parts of the larger metropolitan area.

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Testimony before the
House Committee on Transportation and Infrastructure, Subcommittee on Economic Development, Public Buildings, and Emergency Management

January 23, 2007

Madame Chair, Chairman Oberstar, Congressman Graves, and distinguished Members of this Subcommittee, I am pleased to be here. This subcommittee has the responsibility to determine how the federal government can best stimulate economically competitive regions, and I appreciate your invitation to offer my thoughts on this topic.

At The Brookings Institution, I have two areas of focus:

- the federal role in stimulating economically competitive metropolitan areas, and
- the federal role in producing the socioeconomic data—for example, population, employment, transportation—needed by governments and businesses to make intelligent investment decisions.

To give you some context for my remarks: In the 1980s, I co-founded Mt. Auburn Associates, a regional economic development consulting firm in Boston; in the 1990s, I created a solo consulting practice; two years ago, I become a fellow in the Brookings Institution's Metropolitan Policy Program. I received a doctorate in economic development and public policy from MIT.

I have consulted with 60 states, regions, counties and cities, helping them understand how their economies work and advising them on how they could work better. Congressman Arcuri, I was part of a team working with Oneida County on a plan to reuse Griffiss Air Force Base and increase technology transfer from Rome Laboratory. Congressman Cohen, I helped develop an economic strategy for the Memphis area and a growth plan for Collierville.

I have carried out a substantial amount of work for the Economic Development Administration (EDA) and other federal agencies such as the Small Business Administration and the Department of Housing and Urban Development. My involvement with EDA has included:

- managing or participating in four program evaluations—revolving loan fund, technical assistance, incubators, and public works;

- carrying out three research studies—on the extent of and reasons for manufacturing plant closings in Rhode Island (which became my doctoral dissertation), on the extent to which the federal statistical system meets the needs of local economic developers, and on the role of technology transfer and commercialization in regional development;
- co-authoring two handbooks—"Socioeconomic Data for Understanding Your Regional Economy" (EDA's most widely used publication in its history) and one on regional strategic planning; and
- developing EconData.Net (www.econdata.net), which provides links to over 1,000 sources of on-line data relevant to regional economic developers (approximately 15,000 users a month).

In addition, I am a board member of the Council for Community and Economic Research (C2ER), a national association of regional development organizations and professionals who use statistics and research to drive policy. C2ER has over 500 members—such as chambers of commerce, county development departments, and utilities—a number of which are in the Congressional Districts represented on this Subcommittee.

The world of economic development has changed dramatically since the Public Works and Economic Development Act of 1965 was passed by Congress. In the 1960s and 1970s, economic development was the work of lagging regions, of places left behind in the general postwar boom that brought middle class prosperity to much of the nation. The law's finding and declaration notes succinctly that "while the economy of the United States is undergoing a sustained period of economic growth . . . , there continue to be areas suffering economic distress."

In 1965, the nation seemed to have a very stable economic structure, with well understood regional roles—for instance, Detroit for cars, Akron for rubber, Toledo for glass, Hartford for insurance, Pittsburgh for steel, South Carolina for textiles, Southern California for entertainment and military, Houston and Denver for natural resources, New York for finance and publishing. Places such as these were not in need of economic development; the concern of President Johnson and Congress was how to expand the benefits of prosperity beyond the well-developed areas.

The emphasis on undeveloped areas ended with the recession of the early 1980s and a surprising new vulnerability to international competition that shook the once stable regional economies to their core. The term "Rust Belt" came into vogue, with some reason.

In response to the cyclical and structural shifts, every state and nearly every county, city, and region created an economic development organization to attract industry, retain existing firms, and create new jobs from within. No area could take its future for granted. A new regional competition ensued, a constant fight to attract, retain, and create decent jobs.

However, in the last 25 years, a significant disparity has grown among U.S. regions; some have done extraordinarily well in the global economy, while others have struggled. In 1980, average annual pay per job in the following six cities were all within 110-120 percent of the national average—San Jose, Boston, New York, Pittsburgh, Gary, and Toledo. In 2005, average pay in the first three cities ranged from 132-177 percent of the national average; that for the second three cities fell to the range of 88-96 percent. While pay in Austin, Texas jumped from 88 percent to 107 percent of the national average, that for non-metropolitan Pennsylvania fell from 86 percent to 75 percent and that for non-metropolitan New York went from 84 to 78 percent. The differentials in job growth among these various regions were similar in nature.

Even the regions that have done well are vulnerable to change. Between 2000 and 2004, Silicon Valley lost nearly one in five jobs after the tech bubble burst, a rate of decline similar to those seen in Midwest cities in the early 1980s.

In summary, across the nation, regions cannot take their economic future for granted. Most regions now recognize the need to be competitive in a larger market. The sense of uncertainty and vulnerability regarding economic structure has been with us for 25 years and will be for the foreseeable future. (Interestingly, while structural volatility has increased, business cycle volatility has declined, in part the federal government, particularly the Federal Reserve, and businesses have a better understanding of how to reduce the turbulence of the business cycle.)

What are the reasons for this transformation from stability to uncertainty, and what are the implications for the federal role in economic development? The reasons for change are several:

- ***Markets went from being national to international in scope***, enabled by technological innovations in transportation and communication and by institutional innovations such as global trade agreements, multi-national corporations, and organizationally complex, geographically dispersed supply-chains. In 1960, imports equaled four percent of Gross Domestic Product, the most recent figure is over 16 percent.
- ***Financial and physical capital became highly mobile.*** Firms now readily disperse operations across the nation and the world; for many operations, place is increasingly irrelevant. In industries that compete on the basis of cost, developing nations have had a clear advantage in the market place. American firms in these industries find it in their interest to shift American jobs off-shore.
- ***Productivity in many industries, particularly manufacturing, has skyrocketed***—we can make more goods with far fewer people. The productivity of one manufacturing worker in 2005 was 410 percent of that of a worker in 1960, and 240 percent of a worker in 1980.
- With global competition, off-shoring, productivity increases, and greater wealth for many, ***less of our economy is focused on producing goods than ever before.*** In 1960, manufacturing directly provided 31 percent of the nation's work earnings; in 1980, the figure had dropped slightly to 27 percent; by 2005, only 14 percent of earnings came from manufacturing.
- ***Mergers and acquisitions, and the resulting non-local leadership, have greatly lessened the commitment that firms have to remaining in particular places.***
- ***Firms' ability to create and bring to market innovative products and services has grown substantially.*** The result is increased competition around product and service attributes, and so greater industry volatility.
- ***The intensity of competition has greatly increased from decades past.*** The structure of America's economic base was once largely oligopolistic. That is, in any one industry, a handful of firms controlled the market, prices were stable and sufficiently high, and union power was such that large numbers of relatively uneducated workers could move into the middle class. With global competition and substantially greater

productivity, the wages and numbers of jobs available to workers in such industries have declined dramatically.

More than ever, the nation's regions are experiencing what economist Joseph Schumpeter, 60 years ago, called "creative destruction."[1] In a world of creative destruction, regional economic stability requires creating ***defensible market niches***, one that cannot easily be replicated in another location. Regions around the nation are striving to develop and sustain such niches, whether in key international industries (e.g., Boston and San Francisco in biomedical) or in sectors that provide support functions (e.g., Louisville and Memphis in distribution). In any particular sector, only a handful of regions are able to have defensible niches.

The nation's prosperity is very much the sum of the economic competitiveness of its various regions. Forty years ago, the U.S. did not need to worry about its international competitiveness. Now, clearly, it must. I believe this state of affairs has several implications for the federal role in regional economic development, and by extension, the work of this Subcommittee.

In the interests of the nation's prosperity, ***the Subcommittee should consider broadening EDA's mission from one of aiding distressed regions to one of facilitating the competitiveness of all economic regions.*** While distressed regions still deserve particular attention, the dramatically changed nature of the global economy requires a significant redefinition of the EDA role, which in turn will require ***a significant restructuring*** of how EDA approaches its work.

EDA was created in 1965 under the assumption that depressed regions lack the resources to build the physical assets necessary to attract industry. We can see this in a quote from the Report of the House Public Works Committee (1965):

> It appears that there is a substantial dearth of needed public facilities in our most distressed communities, and that their inability to make such improvements results in an every-increasing loss of new job opportunities. Communities in these areas find themselves in a crippling cycle of economic deterioration.

EDA was created in the belief of the effectiveness of a formula for economic development that certain federally-financed tangible inputs (roads, industrial parks) will lead to certain outputs (jobs). There was a large civil engineering dimension to this work; the attitude was "build it and they (branch plants) will come." Over time, additional inputs have been added to EDA's programmatic toolkit—revolving loan funds, technical assistance—but the basic formulaic approach to economic development has remained.

The belief here was not that the federal government was encouraging the movement of manufacturing plants from one place to another, but rather supporting an increase in the number of plants around the U.S. The assumption was that plants usually did not wander, that in a booming economy they expanded locations. As I noted, that world has disappeared.

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[1] "The opening up of new markets and the organizational development from the craft shop and factory to such concerns as US Steel illustrate the process of industrial mutation that incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one ... [The process] must be seen in its role in the perennial gale of creative destruction; it cannot be understood on the hypothesis that there is a perennial lull." From "The Process of Creative Destruction," Joseph A. Schumpeter, 1942.

In 2007, economic competitiveness is less a function of hard assets than of soft assets—***the organizational capacities of firms to be innovative and creative, to battle in an intensely competitive marketplace.*** Workforce skills, organizational culture, a capacity to intelligently scan the competitive environment, flexibility and adaptability, and a willingness to seek continuous improvement, import knowledge, experiment and learn, and take risks are key.

By extension, regional economic development organizations need these qualities as well. They must move beyond being civil engineers and marketers, of being technocrats, to being leaders and visionaries, "civic entrepreneurs" who build consensus among public and business leaders about a realistic vision (defensible niches) for the region and the roadmap for getting there, and guide the region's leadership in collectively implementing that roadmap.

To carry out this role, regional development organizations need access to:

- current, accurate information regarding the region's economic performance and structure;
- the expertise to determine the implications of this information for a realistic strategy (avoiding magical thinking that the region can transform itself into the next Silicon Valley);
- knowledge about how to create and sustain defensible industry clusters;
- knowledge about the various building blocks that make for a competitive economy—workforce development, technology transfer, infrastructure development (including telecommunications), entrepreneurship, and venture capital;
- the expertise to create and sustain useful social networks within industry clusters, among entrepreneurs, and other key sectors that promote innovation, knowledge sharing, and new business relationships; and
- knowledge of how to learn what businesses need to be successful (and stay in the region) and how to help them get it.

To be effective, then, development organizations must have a far deeper and wider capacity than envisioned in 1965. The approach to economic development shifts from a formulaic relation between hard assets and jobs to an ongoing process of organizing regional actors around vision, roadmap, and action.

I believe that the mission of EDA should include aiding development organizations across the country to obtain this capacity. I suggest it do so through a focus on a series of ***information-focused activities*** which complement its existing programs. In particular, I recommend that EDA have the resources to:

- ***See that federal statistical agencies produce the types of socioeconomic statistics that regional development organizations need.*** To do a proper competitive assessment, development organizations require current, accurate data on population, jobs, workforce, incomes, transportation, housing, education, and other topics. These statistics are used to distribute federal funds; accurate statistics means each community receives its rightful share. In addition, businesses need these statistics to make intelligent investment decisions. For more than a decade, important regional data series have cut back or eliminated, existing statistical series are regularly threatened, and new opportunities offered by advances in information technology have not been fully taken advantage of. EDA has been silent as data sets disappear; it needs to be an informed, vocal advocate.

- ***Greatly increase its support for economic development research***—in order to better understand the dynamics of regional economies and, very importantly, what it takes to become a successful development organization. EDA's current annual research budget is $800,000, far too small an amount. EDA once had a meaningful research budget to complement its grant funds. That budget did much to inform the field over 40 years, and I, for one, would not be sitting here without it.
- ***Support electronic peer-to-peer networks among development practitioners that facilitate access to learning and effective practices.*** For years, EDA has held annual national and regional conferences; as useful as they are, EDA can use electronic communications tools to far more productively facilitate real-time exchanges for problem-solving.
- ***Utilize state economic development departments as mechanisms for providing expertise and support to regional agencies.*** These departments are large enough to have economies of scale in delivering services and yet are close enough to the ground to be able to provide hands-on assistance to regional agencies.
- ***Promote the creation of a series on-line references and analytic tools for economic development practitioners.*** The success of our regional statistics handbook and EconData.Net speak to the value of such tools. EDA began to explore the use of such tools, but stopped.

The cost of these various information tools is remarkably modest, a small fraction of EDA's overall costs, even today when the agency is smaller in real terms than it has ever been. For example, the data handbook and EconData.Net each cost $30,000 to create. (The annual cost of maintaining EconData.Net was $15,000.) Low cost and nationwide accessibility mean that the return on the federal investment in information tools would be quite large.

As noted, EDA would retain its role of aiding distressed regions—the bulk of its funding might still go for public works and infrastructure in these places. At the same time, the information-focused activities would be of significant help to these regions.

To be effective in the proposed new role, EDA would require a different culture and skill set than at present. It would need to be as flexible and adaptable as the firms and regions it hopes to stimulate and as knowledgeable about development processes. I believe it is difficult to modify the agency as currently organized. ***This Subcommittee should consider transforming EDA into a quasi-governmental organization.*** For similar reasons, many states have moved the development department outside of government, and Congress might consider the same step.

I wish to end by coming back to one point I made earlier—in a turbulent knowledge-based economy, access to federal data on economic performance and structure is critical to regional economic competitiveness. The federal government has a unique role in producing accurate, current, objective, readily accessible numbers comparable over space and time. Without federal data, local agencies are flying blind. Of particular importance are the Census Bureau, the Bureau of Economic Analysis, the Bureau of Labor Statistics, the Department of Housing and Urban Development, and the Department of Transportation.

I respectfully suggest that not only should EDA be a strong advocate for good federal statistics, but this Subcommittee should be as well. The federal statistical system is highly idiosyncratic; no one committee in Congress is responsible for either appropriations or oversight of the system. Consequently, the statistical system lacks sufficient Congressional champions. This Subcommittee, whose constituency—development agencies—relies on data from across the system, is well positioned to play an advocacy role with appropriations and statistical agency oversight committees, and I urge you to do so. In particular, Madame Chair, I know that you have been a vocal supporter of accurate census population estimates, and that you appreciate the value of the array of socioeconomic data.

As I suggested earlier, the cost of federal statistics for local areas is quite modest and the payoff is substantial. Let me give you some examples:

- The single most important recent innovation in federal statistics is the ***American Community Survey*** (ACS), annually updated detail on population and housing that replaces the once-a-decade decennial census long form. ACS data are very important for providing a current picture of economic performance (e.g., income, poverty), workforce characteristics (occupation, educational attainment, full-time/part-time status, pay), and journey-to-work (important for transportation planning). Every question on the ACS is required by a federal agency. Cost: $180 million annually. The 2005 figures are incomplete; for want of $15 million, people who live in group quarters—such as nursing homes, military bases, dormitories, and prisons—were not surveyed. By the way, Madame Chair, in 2000 over six percent of DC residents lived in group quarters, a figure far higher than any state in the nation.
- The Census Bureau's ***Local Employment Dynamics*** (LED) program is utilizing advanced information technology to determine the "gross flows" of local economies—patterns in hiring and separations by industry, gender, and age, and where people live in relation to where they work. Cost: $2 million annually (the Census Bureau would like $6 million).
- ***County Business Patterns*** is the most utilized jobs series produced by the federal government. Cost: $700,000 annually.
- The Bureau of Economic Analysis is planning to produce a new series, ***Gross Metropolitan Product***, the equivalent of GDP at a local level, which will allow us to fully see the size and structure of regional economies in a way not possible now. Cost to do it most accurately: $1 million. BEA could not get even this small amount of money, so it is doing a less accurate version with existing resources.
- Every five years (including in 2007), the Census Bureau carries out an ***Economic Census***. The Economic Census is used to create the input-output models that regional developers use to determine the impacts of alternative development scenarios. In addition, the Economic Census includes the ***Survey of Business Owners***, which ascertains the extent of entrepreneurship by place, gender, and race and ethnicity.
- Every few years, the Federal Highway Administration produces the ***National Household Transportation Survey***. The last one was in 2001, the next is planned for 2008. The NHTS is important for transportation infrastructure development at the local level. Cost for the national survey: $4 million. At present, the money is not available.

- For the first time, the Census Bureau has prepared ***day-time population estimates*** for counties and places around the nation. These data are important for transportation planning and emergency management. If funds are available, Census expects to produce a more sophisticated, accurate data series.

As you can see, this sample list of data programs is highly valuable to every development organization in the nation, and the costs for most are quite small.

I wish to note that most federal statistical series depend, directly or indirectly, on the decennial census, the constitutionally mandated effort to prepare a complete count of population for the purposes of apportionment. The validity of federal statistics for economic development depends in part on the completeness and accuracy of the 2010 Census. Therefore, I ask this Subcommittee to support a adequately funded and well-performed census.

On behalf of Brookings and C2ER, I'd be pleased to provide Members of this Subcommittee and their staffs with an overview of the array of federal statistics programs needed for economic development.

I thank you for the opportunity to speak, Madame Chair, and I look forward to any questions that Members might have.

Andrew Reamer, The Brookings Institution

Responses to Questions
Subcommittee Hearing January 23, 2007
The State of Economic Development

Responses to general questions for the panel

1. What are the global trends in national level support for economic development and public infrastructure? The US was a leader in regional planning and approaches in the late 1960s and 1970s, with substantial cuts in the 1980s and forward. Are nation's moving towards sub-state regional economic development strategies, as reported in the European Union and several Asian nations, since localities can no longer afford to "go it alone" in the global marketplace?

Nations indeed are actively supporting sub-state regional economic development strategies. I think you will find of particular interest the forthcoming OECD publication "Competitive Regional Clusters: National Policy Approaches."

2. How would you characterize the current federal community and economic development policy and state of federal support programs such as the US Economic Development Administration, Small Business Administration and related programs?

Current federal community and economic development policy is not well framed and articulated. The array of federal support programs—found across the Department of Commerce, the Department of Labor, HUD, USDA, NSF, and SBA—represents a series of uncoordinated, siloed efforts. Few were designed to address the intense global competitive situation the U.S. now faces.

3. We often hear about the role of the private markets and private sector in driving economic growth and development. However, many of the nation's underserved and distressed regions are typically in a pre-development phase and struggling to transition their economies from their traditional industries. Do current federal policies and programs help address the needs of these struggling or transitioning regions and communities? What role should they play in the future?

A number of federal policies and programs are specifically intended to address the needs of struggling, vulnerable, and transitioning (distressed) regions and communities. Such a role remains appropriate for the future; at the same time, in a global economy in which all regions are vulnerable to competition, federal development efforts should encompass all of the nation's economic regions, not just distressed ones. As I mentioned in my testimony, this mission expansion can be accomplished through the availability of information resources, such has statistics and technical assistance, which are low cost and have high payoff.

4. Infrastructure has traditionally played a critical role in promoting economic development and improving the quality of life for local communities. Today, we are living in an information age. Yet, most local communities, especially in the northeast and Midwest, are faced with aging infrastructure, demands for expanded service and access to more advanced services such as broadband. In fact, in surveys by groups like the American Society of Civil Engineers and the National Association of Development Organizations, local officials continue to rank infrastructure improvements and development for water and waste water, transportation and other basic public services, as one of the most pressing economic competitiveness issues facing their regions. From your experience, are federal programs keeping pace with the needs of local communities and regions?

The answer depends in part on what one thinks is the appropriate role of the federal government in local infrastructure development. It does appear that the nation's needs for infrastructure development and improvement are not being met, at least according to the American Society of Civil Engineers, which says the nation needs to invest $1.6 trillion over a five-year period.

It seems appropriate to consider the federal government to be a funder of last resort for local infrastructure projects, after the local government and then the state government. In areas of economic distress and low local fiscal capacity, state governments have responsibility before the federal government for providing infrastructure funding. Where states are not stepping up to provide such funding, it seems appropriate to use federal funds as an incentive to prod greater state support.

The EDA budget for public works projects is miniscule compared to the amount of infrastructure activity taking place. In 2001-02, the latest year for which Census Bureau data are available, state and local governments spent $88 billion for transportation capital projects and $30 billion for utility (water, electric, gas, sewer) capital projects.

That same year, federal grants to state and local governments for transportation equaled $41 billion, most of which went to states; the federal government also provided $500 million in grants for rural water and waste disposal projects. The EDA public works budget was only $172 million in fiscal year 2006, only about 0.2 percent of state and local infrastructure spending from general revenues, and down from $252 million in 2002.

The data indicate, then, that most states and localities have fiscal capacity to support infrastructure development and that the federal government is transferring large sums of money for transportation development but very little support for infrastructure projects targeted to distressed regions. In light of the nation's needs for infrastructure improvements and EDA's very small budget, consideration might be given to restructuring the EDA public works program to draw in greater state financial support and so extend the reach of EDA funds to more projects by lowering the federal match from the current 50 percent. Given the level of need, such an approach might be considered even if EDA's public works budget were increased significantly.

5. Most of our nation's urban regions have extensive professional economic development staff and capacity. In small metropolitan and rural regions, our communities rely heavily on EDA's economic development districts for professional planning and development assistance. Recognizing that the EDA planning program has been under funded over the years, what are your recommendations for improving the professional capacity of our smaller communities so that they can compete on a more level playing field with our major urban areas?

If the funding of the EDA planning and technical assistance grants programs continues at current levels, I suggest that EDA actively collaborate with other federal agencies that support economic development planning in rural and small metropolitan areas, including the Employment and Training Administration (particularly the Workforce Investment and WIRED programs), USDA's Office of Community Development, and USDA's Forest Service Economic Action Program.

An additional idea is to encourage state development departments to more actively support capacity building in rural and small metro areas, perhaps through EDA requiring a partial state match for local planning and technical assistance funds. To draw in state funds and to extend scarce EDA resources to more communities, consideration could be given to lowering the EDA contribution from 50 percent.

6. Much has been written and said about the role of the federal government in economic development. In your opinion, is there a role for the federal government in 21st century economic development? What is that role? Is the EDA fulfilling that role? Do you recommend and support that role? What would you do to change it?

Pages 2-4 of my testimony before the Subcommittee directly address this question.

7. Would you recommend that Congress approach economic development any differently, that is not through a matching grant program but through another mechanism?

The bulleted items on pp. 5-6 of my testimony before the Subcommittee address this question.

8. In what way is the federal government best equipped to play an economic development role?

I believe that the federal government is best equipped to play an informational and convening role in regional economic development. The federal government has a natural role—one that cannot be replicated by the states and localities—in producing statistics, investing in economic development research, encouraging the identification, dissemination, and adoption of best practices, providing references and guides, and providing leadership ("the bully pulpit") encouraging state and local strategic investments in economic development.

In contrast, investment in public works is first and foremost the province of state and local governments. The rationale for federal public works grants is filling a gap in state and local financial capability. However, the federal government will never be able to provide the resources to completely fill that hole. On the other hand, with a relatively small expenditure of resources, the federal government can fully and effectively carry out the type of activities indicated in the previous paragraph.

9. How do you account for the differences in economic development needs that are apparent when one reviews various regional economic development proposals?

Every region in the nation is unique—with a unique traded industry structure, a unique set of competitive strengths and weaknesses, a unique workforce, a unique array of physical infrastructure, a unique set of financial assets, and a unique set of public and economic development institutions, leadership and staff. Therefore, each region's needs with regard to development—to the issues and opportunities to be addressed—differ one to another.

10. Have the causes of poverty really changed in the last 45 years – since the Great Society programs?

Not entirely, but yes, they have to some degree, in several ways. One major change is that many once stable industries that could provide a decent standard of living to workers without higher education have disintegrated due to foreign competition. So lack of education, and poor educational preparation, is more likely to lead to poverty than once was the case. (For instance, see the New York Times column by Tyler Cowen, "Why Is Income Inequality in America So Pronounced? Consider Education," May 17, 2007.)

In addition, the rise in single parent families is stimulating poverty to a degree greater than before. In 1960, 8 percent of families with children were headed by a single woman; in 2005, 23 percent were. Over 36 percent of single female-headed households with children are in poverty, compared to less than seven percent of married couple families with children.

On the other hand, lack of access to good jobs due to racial and gender discrimination, while it still exists, is less than before, through law, regulation, and cultural changes.

11. Is investment in basic infrastructure as vital to economic development as it was 45 years ago? How does that type of investment stack up against investment in technology – that is wires versus roads?

Investment in physical infrastructure is as vital to economic development as it was 45 years ago. At the same time, technological advances and global competitiveness now requires investment in informational technology infrastructure as well.

12. What activities are included in "capacity building"?

In the economic development field, "capacity building" usually refers to enhancing the capacity of economic development institutions—local governments, public/private partnerships, chambers of commerce, for example—to understand how the local economy works, assess strengths and weaknesses, develop a strategy for addressing those strengths and weaknesses, and implementing that strategy. Such capacities require both analytical and collaborative skills; the latter are important because local economic development is a "team sport."

13. Are there fundamental difference between the sources of urban underdevelopment and rural and suburban underdevelopment?

Causes can vary within type of area, and be similar across areas. For instance, all types of areas have suffered the loss of traditional manufacturing industries. However, urban areas also can suffer from underdevelopment due to middle-class flight responding to concerns about schools and crime. Unlike more diversified urban areas, rural areas can suffer greatly when one major employer leaves town.

14. It has often been stated that the states and localities should have the primary responsibility for designing and implementing development activities. Do you agree? What then would be the federal role? How would the federal government protect its investment?

States and localities now have the primary responsibility for designing and implementing development activities, and that is appropriate. The federal role is to enhance their capacity to carry out such work, through grants and informational roles such as outlined in pp. 5-6 of my testimony provided to the Subcommittee and in previous answers here.

15. Also, much has been said and written about the importance of the Federal government in disseminating information. How can the government do better in this area?

Please see pp. 5-6 of my written testimony submitted to the Subcommittee.

16. What progress have you seen measuring economic development program effectiveness and program administration?

While I carried out a number of evaluations of EDA programs in the 1980s and 1990s, I have not been in touch with such efforts recently. My consulting firm and EDA were pleased with the evaluation methods at that point in time; I can only imagine methods have improved. That said, I wish to point out two key aspects to an effective evaluation. One is to attempt to measure the "substitution effect," the extent to which federal investment simply is substituting for state and local investment that would have occurred in any case. The other is to combine quantitative (secondary data and survey analysis) and qualitative methods (case studies); such combination is useful given the complexities of the development process and the challenges in clearly identifying the impacts of the federal role. Case studies are particularly important to help explain results and to identify dynamics not obvious in the data.

17. What are your thoughts on demonstration projects?

Demonstration projects have value if they are chosen strategically to test specific hypotheses or experimental approaches and rigorously assessed, and if the results of that assessment are well publicized and provided in a way that practitioners can make use of.

Andrew Reamer, Fellow
Brookings Institution
Metropolitan Policy Program

1. Thank you so much for your written testimony. I'm sure the subcommittee will benefit from your insights into the nature of today's economic development problems. Please review the links you have made between globalization and the growth of the importance for the need for regional economic approaches.

I offer selections from my testimony: "The nation's prosperity is very much the sum of the economic competitiveness of its various regions. Forty years ago, the U.S. did not need to worry about its international competitiveness. Now, clearly, it must."

"More than ever, the nation's regions are experiencing what economist Joseph Schumpeter, 60 years ago, called "creative destruction." In a world of creative destruction, regional economic stability requires creating defensible market niches, one that cannot easily be replicated in another location. Regions around the nation are striving to develop and sustain such niches, whether in key international industries (e.g., Boston and San Francisco in biomedical) or in sectors that provide support functions (e.g., Louisville and Memphis in distribution)."

"(A) across the nation, regions cannot take their economic future for granted. Most regions now recognize the need to be competitive in a larger market. The sense of uncertainty and vulnerability regarding economic structure has been with us for 25 years and will be for the foreseeable future."

2. You highlight the economic shift in supply of goods to a supply of services. How should economic development projects proceed under this shift? What types of projects should the committee expect to see from an EDA or ARC?

I think the committee should expect to see more service-providing projects that rely on information technology (IT) for communications and processing. IT allows corporate functions, particularly support services, to be carried out in disparate places rather than in one area, as once was the norm.

3. You put great importance on a regional economic development approach. How does this approach differ from one we saw perhaps 35-40 years ago?

The customary approach 35-40 years ago was a linear one driven by experts, outlining a "recipe" (the plan) for regional development that called for investment in this bridge, that highway, and that industrial park.

Today, the appropriate approach to regional development differs in two ways from the past. One is that assessment, planning, and implementation take place simultaneously, not sequentially; re-assessment is constant. Two is that the process relies much more on hands-on collaborative relationships between public and private leadership than once was the case. The role of staff is less to provide the "recipe" and more to facilitate the collaborative process. A good description of this process can be found in Chapter Four of "Strategic Planning in the Technology-Driven World: A Guidebook for Innovation-Led Development," a report I co-authored with Collaborative Economics for EDA http://www.eda.gov/PDF/1G3_21_stratplan-tech.pdf. You also might look at the graphic provided by the Department of Labor WIRED Program http://www.doleta.gov/wired/tools/.

4. You also suggest that we should look forward to a new approach for the federal government - one that would promote economic development tools to include information and knowledge development. How would this new approach work? What should we be doing differently?

This approach would require a number of steps. First, as discussed in my testimony, is an expansion and redefinition of the EDA mission from a focus on distressed areas to one that encompasses the economic competitiveness of all regions. Second, EDA would fulfill this broader mission through investing in the development and dissemination of information and knowledge, which are key to building the capacity of regional development agencies.

Third, EDA would need to revamp its program and staff structure to move beyond its traditional primary role of allocating money for planning, technical assistance, and public works. EDA would need staff with new skill sets. Specifically:

- EDA would require staff who
    - understand the sources and uses of federal regional statistics;
    - can work with the federal statistical agencies, such as the Census Bureau, the Bureau of Labor Statistics, and the Bureau of Economic Analysis, to ensure that these agencies continue to provide the data on which regional developers rely;
    - can actively encourage federal statistical agencies to develop new data sets and tools to enhance the ability of developers to see their economy in full (e.g., Gross County and Metro Product) and in new and dynamic detail (e.g., regional and county price indices, a fully functioning Local Employment Dynamics data program from the Census Bureau); and

- can educate the Commerce Department budget office, OMB, and Congress about the high return on investment in regional statistics.

- Congress would need to provide EDA with an annual research and national technical assistance budget many times greater than the $500,000 now provided. A budget of $5 million would be far more appropriate and would allow researchers to produce
  - findings useful to all regional development agencies—such as key trends in regional competitiveness and effective practices in regional development,
  - findings that can guide EDA and Congress—such as the nature of the relationship between regional competitiveness and national competitiveness, and
  - on-line and print technical assistance guides, references, and data tools useful to all development agencies.

- EDA would need staff who could create and facilitate (whether directly or through a contractor) a series of peer-to-peer networks to encourage real-time exchanges for problem-solving and best practices. The ETA WIRED program provides a good model for this process:
  - "Regions also have opportunities for peer-to-peer learning, most notably through WIRED Academies. The Academies are held three times per year and provide regions with opportunities to network and share their challenges and promising practices, as well as consult with experts from the workforce, education, and economic development communities; Federal departments and agencies; and the private sector. The regions also have access to an interactive Web site, the Collaborative Workspace, which facilitates the exchange of resources and information among the learning network." (http://www.doleta.gov/sga/sga/DOL-SGA-DFA-PY-06-09.pdf, p. 5)

- EDA would need staff who can oversee the creation of a series of on-line references and analytic tools for economic development practitioners. These resources would be developed through the learnings of the peer-to-peer networks as well contracts with experts. Again, the WIRED program provides a good example:
  - "ETA is compiling resource tool kits, such as a regional assessment tool and an asset mapping tool, and promising practices regarding workforce and economic development strategies. These resources will be disseminated widely to the workforce investment system and economic development community, so that all regions, even those not selected to participate, will benefit from the WIRED Initiative." (p. 6)

- EDA would need to develop new collaborative relationships with government organizations that can bring additional financial and informational resources to bear for regional development.
  - EDA should create strong collaborative relationships with state economic development departments. These departments can provide expertise and additional budget resources. Historically, EDA has not worked with state agencies to any significant degree.
  - EDA should develop collaborative relationships with other federal efforts that promote regional economic development, including the Workforce Investment

and WIRED programs of the Employment and Training Administration, USDA's Office of Community Development, USDA's Forest Service Economic Action Program, and HUD's Office of Community Planning and Development.

In sum, EDA would need to become a different agency—with a different culture and broader skill set—one that is active, entrepreneurial, responsive to the needs of its constituency, and provides leadership and direction for the purposes of national economic competitiveness through regional development.

5. Since taxpayers have come to expect almost immediate results for investment with their tax dollars how would we measure success on this approach in the short term? Long term?

This is an excellent question. In a way, the answer to this question is the same as the answer to: How do we measure the value to the nation from producing figures on national Gross Domestic Product, jobs, unemployment, and trade? While the Federal Reserve, the Treasury Department, and the Commerce Department cannot quantify the value of having those figures, they would tell you they could not do their jobs without them.

One of the major benefits of good information is that it can be used by many and never be consumed. This benefit, however, makes it difficult to track immediate and direct benefits in terms of traditional outcome measures such as job creation and output measures such as industrial park acreage.

In the very short term, EDA would use web-based surveys to ask users of new informational services (e.g., new data sets promoted by EDA, new references and guides) about the immediate usefulness of these services. In the moderate term (say 2-4 years), EDA would measure success through a broader evaluation—talking to an array of leaders in the field, experts, and sophisticated development agencies about the value these new EDA services add to economic development and how they might be improved.

For the long term (say after five years), EDA would carry out a rigorous nationwide assessment of the state of nation's economic regions, the impact that regional development agencies have had in promoting competitiveness, and the value that all of EDA's programs, including informational ones, played in building the capacity of agencies to be effective.

6. You mentioned, as did Mr. Pages, the effect that mergers and consolidation has had on local economics. Since the trend is to merge and acquire how does a local business compete with the "big guys"?

By "local business," I am taking that you mean a small business with one location. The incredible advances we've seen in worldwide communications, information technology, transportation and financial markets cuts both ways in terms of small business viability. On the one hand, these advances have enabled mergers and acquisitions, off-shoring, out-sourcing, and the geographic dispersion of corporate functions, all with cost and market advantages that make it difficult for some small businesses to compete head-to-head with large ones.

On the other hand, these advances have enabled the competitiveness of agile, flexible small businesses who know how to compete on the global stage. Small businesses now have the ability to outsource many functions to other firms located at a distance, gaining efficiencies and expertise not possible before. Conversely, small businesses are now better positioned to supply valuable specialized services (for example, law, accounting, customer assistance, and engineering) to other firms as well.

The possibilities for growth of small entrepreneurial businesses is well laid out in The Small Business Economy: For Data Year 2005, published by the Small Business Administration, "Chapter 6: Economic Gardening: Next Generation Applications for a Balanced Portfolio Approach to Economic Growth" (http://www.sba.gov/advo/research/sb_econ2006.pdf):

> This chapter is about the evolution of an experiment outside the mainstream of economic development that now offers insight and lessons learned, as economic development policy and practice adapts to what most agree is some form of "post-industrial economy." This rapidly transforming U.S. economy is not about the demise of manufacturing but the emergence of advanced manufacturing methods, advanced business and financial services, exploding leisure and recreation industries, biomedical technologies and services, the information technology industry, etc. It is also about the dramatically changing proportions of firms in different size categories. The National Commission on Entrepreneurship noted in 1999: "In the late 1960s, one in four persons worked in a Fortune 500 firm; now 1 in 14 do." In this context, constant innovation with commercialization becomes the hallmark of success, enabled by an entrepreneurial culture.

The Littleton, Colorado example cited in the chapter demonstrates the possibilities of small firm-led economic renewal after the loss of a large employer and speaks directly to your concern:

> The economic gardening best practices that evolved in Littleton, Colorado, were ultimately associated with one of three critical themes:
>
> 1. Infrastructure: building and supporting the development of community assets essential to commerce and overall quality of life (e.g. roads, education, and cultural amenities);
>
> 2. Connectivity: improving the interaction and exchange among business owners and critical resource providers (e.g. industry trade groups, public sector supporters, and academic institutions); and
>
> 3. Market information: access to competitive intelligence on markets, customers, and competitors comparable to the resources historically available only to large firms.

The Consequences of Eliminating Group Quarters Data from the Census Bureau's American Community Survey

Discussion Paper

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Historically, the Census Bureau has provided communities, regions, and states with detailed social, economic, and demographic profiles of their total population. The Census Bureau's ability to provide such data is now at risk. If Congress does not provide an exception for the Census Bureau in its consideration of the continuing budget resolution for fiscal year 2007, the Census Bureau indicates it likely will eliminate the annual collection of statistics on people who live in group quarters (GQ)—such as college dormitories, military barracks, nursing homes, and prisons—from its ongoing American Community Survey (ACS).

If this part of the population is not covered, the federal government, states, and localities will not have the data needed to make informed decisions on the full array of government functions, including emergency planning, health care, and transportation. In addition, many states and localities will not receive their fair share of federal funding. Moreover, businesses that serve GQ populations will lack the data to identify the nature of services that might be needed.

Introduction

The Census Bureau's newly implemented ACS uses the structure and format of the traditional decennial census "long form" to annually publish detailed demographic, social, and economic characteristics of the nation's population. Examples of topics covered include income and poverty, employment, occupation, housing characteristics and costs, race and ethnicity, language, ancestry, and journey to work. Over time, the Census Bureau will provide annual data on population and housing characteristics for all levels of geography, from the nation as a whole down to the neighborhood level.

"Long form" data were collected during each decennial census between 1940 and 2000. These data have been critical for enabling informed decision-making by businesses, community-based service providers, and governments at all levels. With nationwide launch of the ACS in 2005, the "re-engineered" 2010 Census will consist of only a short form that collects the most basic population data. Consequently, governments, nonprofit organizations, and businesses will need to look to the ACS for demographic, social, and economic profiles.

Over the years, the federal, state, and local governments have relied on long form data to:

- identify and measure community well-being, assets and activity patterns;
- shape and implement policies, programs and projects based on actual conditions (for example, to promote economic development, plan highways, educate children, deploy police, address poverty, assist veterans and prepare evacuation plans);
- determine the flow of dollars to states and localities from federal assistance programs; and
- evaluate the effects of a wide variety of programs and policies.

Private and nonprofit sectors have used long form data to identify markets and determine how best to serve them. The location of and the goods and services offered by grocery stores, banks, day care centers, hospitals and new housing units all have been guided by census data. Chambers of commerce use the information to determine which businesses to attract to their communities.

In 2005, the private and nonprofit sectors spent $1 trillion in fixed investments in new structures. Few organizations of any size make a decision about where to locate a business establishment or housing, or where to provide a new service, without relying on data derived directly or indirectly from the census long form. American consumers spent $8.7 trillion in goods and services, dwarfing any other component of GDP. In guiding where businesses locate and what they offer, census data have had a substantial impact on which goods and services are available for people to buy. In short, census data are fundamental to economic growth and adaptation in every community.

The first large-scale release of ACS data (for calendar year 2005) took place in the summer and fall of 2006. However, due to budget constraints, only populations living in households were surveyed. People living in group quarters—institutionalized settings such as nursing homes and prisons and non-institutionalized settings such as military bases and college dormitories—were not included. About 3 percent of the nation's population live in group quarters and were excluded from the 2005 ACS.

With improved budget conditions for fiscal year 2006, the Census Bureau was able to survey group quarters for the ACS in calendar year 2006, and these data will be published in the second half of 2007.

However, due to necessary preparations for the 2010 Census, a fiscal year 2007 Census Bureau budget based on fiscal year 2006 levels, as proposed in the upcoming continuing resolution, would again result in the elimination of ACS data collection for group quarters. An irregularly administered GQ survey wreaks havoc with the ability of small areas to understand their GQ populations (as small areas need three to five years of consecutive data collection to create a sufficiently large sample). Moreover, cancellation of the 2007 collection will make it more difficult to restore funding for data collection in future years.

This discussion paper explores the consequences of the proposed elimination of GQ data collection from the ACS. It begins with an exploration of the extent to which populations in each state and Congressional District live in group quarters. As we show, the presence of GQ populations can vary significantly by location. Therefore, the loss of GQ data will affect some states and districts more than others.

The paper then examines the consequences of the loss of GQ data for the federal government, for states and localities, and for businesses.

Group Quarters Populations by State, Congressional District, and Place

The latest data we have on GQ populations by geography are not particularly current—they are from Census 2000. In 2000, slightly less than three percent of the nation's population lived in group quarters. Table 1 shows the proportion of people living in the different types of group quarters. College dorms, prisons, and nursing homes each housed roughly a quarter of the GQ population, and about 17 percent lived in other noninstitutional group quarters, such as shelters, missions, and group homes.

Table 1
Group Quarters Population in the U.S., by Type, 2000

	Population	Percent
Total:	7,778,633	
Institutionalized population:	4,059,039	52.2%
Correctional institutions	1,976,019	25.4%
Nursing homes	1,720,500	22.1%
Other institutions	362,520	4.7%
Noninstitutionalized population:	3,719,594	47.8%
College dormitories	2,064,128	26.5%
Military quarters	355,155	4.6%
Other noninstitutional group quarters	1,300,311	16.7%

As Table 2 indicates, a visible portion of each state's population lived in group quarters in 2000; at the same time, there was significant variation among the states (including the District of Columbia). DC ranked first with over 6 percent of its people in group quarters, followed by South Dakota, Rhode Island, and North Dakota, all with close to 4 percent. Nevada and Utah each had under 2 percent, less than half of the figures for the top-ranked states.

Not surprisingly, the variation among Congressional Districts is even larger, as Maps 1-3 and Appendix 1 show. In 2000, almost eight percent of the population in the 8th Massachusetts Congressional District (home of many universities) lived in group quarters. When the analysis focuses on voting age population (Map 2), the spread among Congressional Districts widens even further, with over 11 percent of the voting-age population in the 20th California Congressional District living in group quarters. In 79 districts, more than five percent of the voting-age population lives in group quarters.

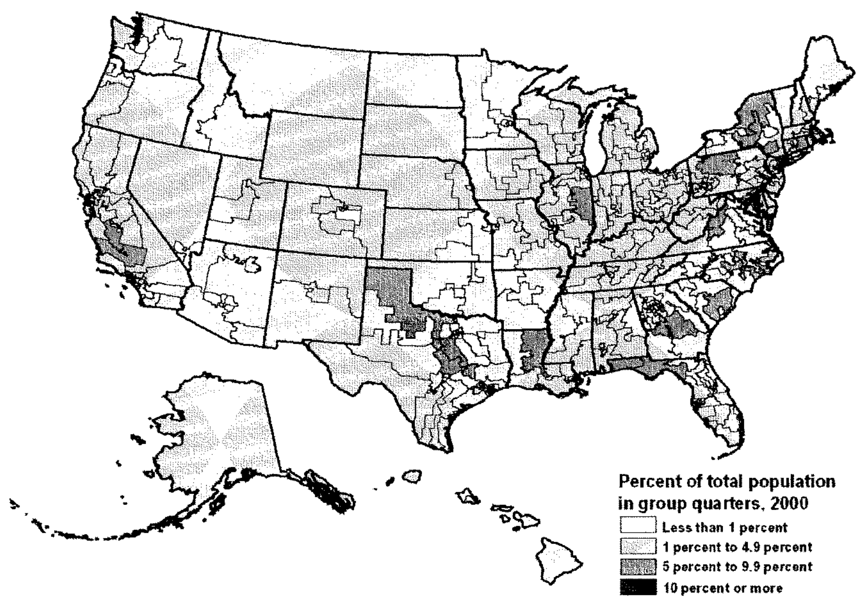
Many government programs and business services are concerned with an older population. In the majority of Congressional Districts, five percent or more of the population 65 years or older lives in group quarters (Map 3).

At the local level, variation among locales is even more substantial. Table 3 shows, for example, that the college town of Bethany, West Virginia has nearly 60 percent of its population in group quarters, compared with less than 3 percent for Parkersburg, West Virginia.

Table 2
Percent of Population in Group Quarters, by State, 2000

State	Percent	Rank	State	Percent	Rank
Alabama	2.6%	37	Montana	2.7%	31
Alaska	3.1%	16	Nebraska	3.0%	20
Arizona	2.1%	48	Nevada	1.7%	51
Arkansas	2.8%	29	New Hampshire	2.9%	25
California	2.4%	42	New Jersey	2.3%	45
Colorado	2.4%	43	New Mexico	2.0%	49
Connecticut	3.2%	13	New York	3.1%	17
Delaware	3.1%	15	North Carolina	3.2%	14
District of Columbia	6.2%	1	North Dakota	3.7%	4
Florida	2.4%	41	Ohio	2.6%	34
Georgia	2.9%	26	Oklahoma	3.3%	12
Hawaii	3.0%	21	Oregon	2.3%	47
Idaho	2.4%	40	Pennsylvania	3.5%	6
Illinois	2.6%	36	Rhode Island	3.7%	3
Indiana	2.9%	22	South Carolina	3.4%	9
Iowa	3.6%	5	South Dakota	3.8%	2
Kansas	3.0%	18	Tennessee	2.6%	35
Kentucky	2.8%	28	Texas	2.7%	33
Louisiana	3.0%	19	Utah	1.8%	50
Maine	2.7%	32	Vermont	3.4%	8
Maryland	2.5%	38	Virginia	3.3%	11
Massachusetts	3.5%	7	Washington	2.3%	46
Michigan	2.5%	39	West Virginia	2.4%	44
Minnesota	2.8%	30	Wisconsin	2.9%	23
Mississippi	3.4%	10	Wyoming	2.9%	27
Missouri	2.9%	24	**United States**	**2.8%**	

Map 1
Percentage of Total Population in Group Quarters, 2000 – Congressional Districts, 109th Congress

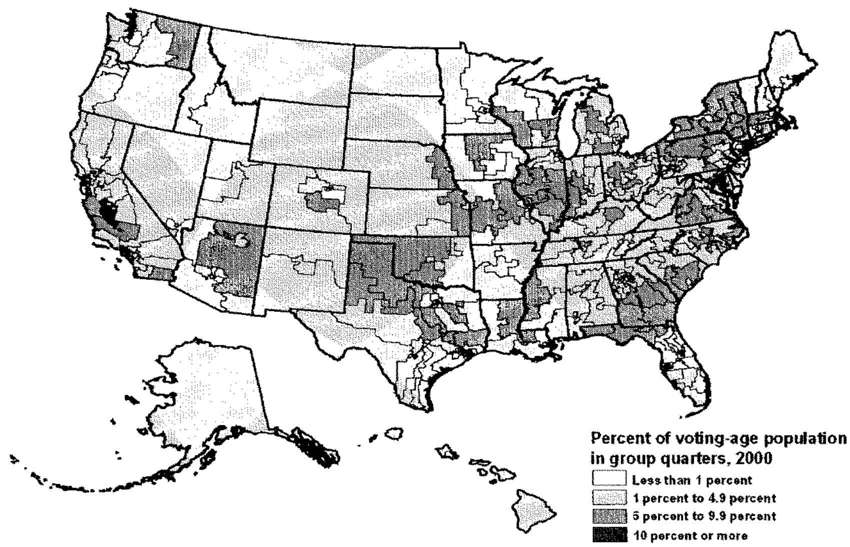


Note: The percentages living in group quarters ranged from 0.4 percent to 7.6 percent. At the time of the data analysis, data were not available for the districts of the 110th Congress. (The only difference between the 109th Congress and the 110th is redrawn districts in Texas and Georgia.)

Source: U.S. Census Bureau, *2000 Census of Population*, Summary File 1.

Prepared by Population Reference Bureau.

Map 2
Percentage of Voting Age Population in Group Quarters, 2000 -- Congressional Districts, 109th Congress

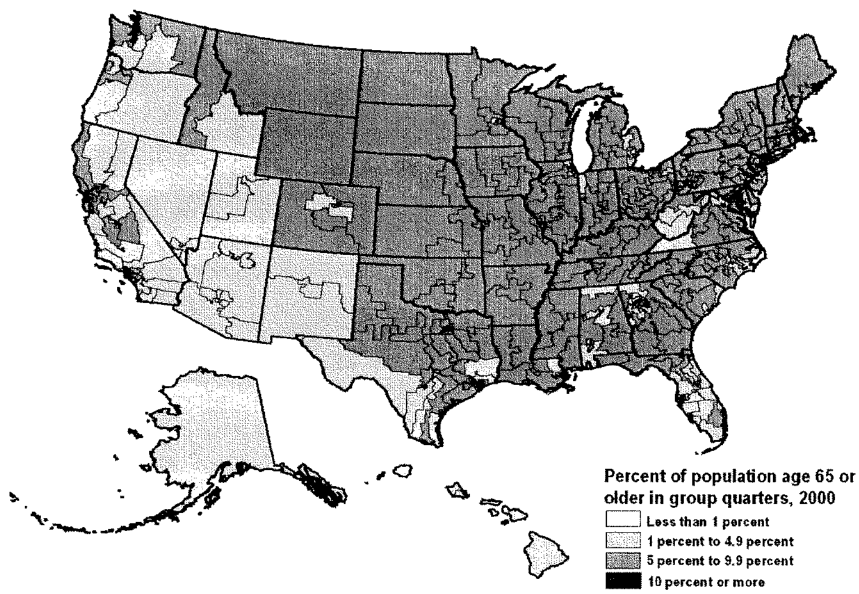


Note: The percentages living in group quarters ranged from 0.5 percent to 11.2 percent. At the time of the data analysis, data were not available for the districts of the 110th Congress. (The only difference between the 109th Congress and the 110th is redrawn districts in Texas and Georgia.)

Source: U.S. Census Bureau, *2000 Census of Population,* Summary File 1.

Prepared by the Population Reference Bureau.

Map 3
Percent Population Age 65 or Older in Group Quarters, 2000 – Congressional Districts, 109th Congress



Note: The percentages living in group quarters ranged from 1.6 percent to 10.2 percent. At the time of the data analysis, data were not available for the districts of the 110th Congress. (The only difference between the 109th Congress and the 110th is redrawn districts in Texas and Georgia.)

Source: U.S. Census Bureau, *2000 Census of Population*, Summary File 1.

Prepared by the Population Reference Bureau.

Table 3

Percent of Total Population in Group Quarters, Selected Places in West Virginia, 2000

Place	Total Population	Group Quarters Population	Percent Population in GQs
Bethany town	985	585	59.4%
West Liberty town	1,220	667	54.7%
Athens town	1,102	333	30.2%
Glenville town	1,544	435	28.2%
Montgomery city	1,942	472	24.3%
Jefferson town	567	129	22.8%
Buckhannon city	5,725	1,227	21.4%
Morgantown city	26,809	4,329	16.1%
Beech Bottom village	606	81	13.4%
Philippi city	2,870	357	12.4%
Bradley CDP	2,371	257	10.8%
Keyser city	5,303	406	7.7%
Elkins city	7,032	486	6.9%
Belmont city	1,036	62	6.0%
Huntington city	51,475	2,866	5.6%
Wheeling city	31,419	1,622	5.2%
Dunbar city	8,154	389	4.8%
Fairmont city	19,097	857	4.5%
Fayetteville town	2,754	113	4.1%
Barboursville village	3,183	115	3.6%
Charleston city	53,421	1,670	3.1%
Parkersburg city	33,099	870	2.6%
Elizabeth town	994	24	2.4%
Summersville town	3,294	64	1.9%
Martinsburg city	14,972	212	1.4%
Hinton city	2,880	37	1.3%
Lumberport town	937	9	1.0%

Consequences of the Loss of ACS Group Quarters Data for Governments

The elimination of ACS GQ data will have a profound effect on the ability of governments at all levels to carry out their functions.

Loss of federal funding. Cities and counties will have difficulty collecting federal funds on behalf of both the total population and those living in group quarters, if the data are not available from the ACS. Every characteristic on the ACS questionnaire is required or mandated by federal law or court cases; many are used in federal funding and program administration. For example, the disability question is used to distribute federal funds to job training programs and mass transit systems to address the needs of people with disabilities. The veteran status question is used to direct spending for training, facilities, and medical and nursing home care for veterans. The transportation questions are used to determine the flow of federal funds for highways and emergency services.[1]

Communities with significant GQ populations—a university town like Ann Arbor, Michigan or a military town such as Norfolk, Virginia—would be adversely affected if they cannot include the characteristics of their GQ population in proposals to obtain federal grants for their cities.

Incomplete constituent profiles for Members of Congress. With the advent of the ACS, all Members of Congress now have on-line access to annually updated detailed profiles of the population in their state or congressional district.[2] However, the elimination of data collection for group quarters would mean that lawmakers would not have complete current information on their constituencies. States and districts with a high percent of population in group quarters would be particularly affected by the absence of GQ data.

Loss of a comprehensive area profiles. Without GQ population data, every area will have a profile of the household population only, not the total population. Greg Williams, Alaska's State Demographer, says, "In my opinion, the elimination of the GQ from the ACS would invalidate the ACS as a replacement for [the long form]. It would seriously damage class of work, occupation and industry data, not to mention making all social and economic data no longer comparable to any prior census data. It would also complicate even further the use of our estimates with any data from the census.... We are currently biasing education data through the exclusion of college, prison and other GQ populations. In short I would rather drop the ACS entirely than exclude GQs."

A data analyst active in the Census Bureau's Data Centers Program writes, "Trends in a community or region based solely on household population will be misinterpreted. We

[1] For the specific federal uses of each ACS question, see http://www.census.gov/acs/www/SBasics/congress_toolkit/toolkit.htm.
[2] http://fastfacts.census.gov/home/cws/main.html

won't have the *total population*. We are relegating GQ populations to a level of non-existence. Why? Well, mainly because they can't speak for themselves."[3,4]

Distortions will be the greatest, of course, for areas with a large percent of population in group quarters. Marc Davis, a reporter in Norfolk, Virginia, says: "In Norfolk ... the lack of group quarters is deadly. About 10 percent of the city's population is in group quarters – mainly sailors on ships and in barracks. Because of that, we are simply ignoring the ACS. The numbers, for us, are wholly unreliable."

A State Data Center head writes, "Here's my worst problem to date: Educational attainment data from the two sources (Census and ACS) for a county that contains a large university are likely to be particularly wacky. And it is college and community officials in those very counties that tune in to that statistic. Places with a college care about educational attainment. Every state has at least one county that has a university with lots of dormitories whose residents aren't showing up in ACS. Many states have more than one county thus affected."

A rural data analysis sums up the importance of GQs this way: "In a lot of rural communities, prisons account for much of the racial and ethnic diversity. The census has been really important for those of us looking at the role of prisons and hospice care facilities, among other things, in rural areas. Both are increasingly important parts of rural economies."

Communities with populations under 20,000 are particularly vulnerable to losing GQ data. For small areas, ACS data have to be collected for five years in a row in order to provide statistically significant results. If GQ data are not collected in any one year, the community will not have data on the socio-economic characteristics of its GQ population.

Loss of ability to track community change over time. Another participant in the Census Bureau's Data Centers Program says: "If this is a survey of our *community*, then an essential part of any community is group quarters – our people in nursing homes, half-way homes, dormitories, yes, even jails! The ACS' pronounced goal is to 'give communities a fresh look at how they are changing." How does one consider the context of change without group quarters? We need the *whole* picture, not just the household population."

Regions want to track changes in the GQ population as it is related to policy. One data user gives the example of the overcrowding of county jails. The counties rent space in other counties for additional prisoners, and the jailed populations surge in those areas. The data user says, ". . . wouldn't it be nice to track such trends within our state or region

[3] Participants in the Census Bureau's Data Centers Program include State Data Centers, Business and Industry Data Centers, and Census Information Centers. These centers, located in state and local governments, universities, and nonprofit organizations, work with the Census Bureau "to ensure that the data collected by the Census Bureau are made available to all the citizens of the United States and the business community." See http://www.census.gov/sdc/www/datacntr.html.

[4] This quote and ones following were provided in response to electronic inquiries regarding the value of GQ data from the ACS. Italicized words were highlighted by the authors.

or nationally? But we won't be able to [if] the ACS doesn't include that significant population."

The loss of ACS GQ data would not allow communities to compare their current situation with conditions in 2000, the latest year for which data include both household and GQ population.

Inadequate community preparedness for emergencies. Without data on people living in group quarters with disabilities or without access to cars, emergency planners cannot fully identify those who will need help in an emergency. The experience of Katrina shows the highly negative impacts of inadequate planning for the evacuations of nursing home, for instance.

Difficulty assessing the need for social services. Decisionmakers need data from the ACS for both household and GQ populations in order to accurately assess the need for and access to social services. For instance, researchers have identified an aging Hispanic population that worked in jobs not covered by Social Security, which may affect their ability to use nursing homes. There are cultural differences in family care and willingness to use nursing homes; planners need to know more than the number of people 85 years and older in order to evaluate fully the needs of this population. With increasingly older Asian and Hispanic populations, are there differences—because of language and ability to speak English—in the need for services in assisted living and nursing care? Research has shown that educational attainment implies lifelong differences in income, wealth accumulation, and health—do such differences translate to differences in need for some types of group quarters, and the timing of the need, such as for nursing homes? We cannot answer such questions without GQ data from the ACS.

Carol Rogers, of the Indiana Business Research Center, remarks: "Health and safety issues are critical in America today. We cannot do proper policy analysis without the *whole picture* of our communities. We need to know where *all* our people live and in what circumstances. That was the purpose of the decennial and was supposed to be the purpose of the ACS. We are telling the social services agencies, state government agencies that serve these GQ populations, and homeland security that their work doesn't matter if the ACS does not include GQ."

Loss of improved data quality. Because of costs and time constraints, Census 2000, which included the traditional long form, had a high rate of missing data about the characteristics of the GQ population. As a continuous sample survey, the ACS has a lower rate of missing data on GQ populations.

Consequences of the Loss of ACS Group Quarters Data for Businesses and Nonprofits

As noted, businesses and nonprofits use long-form type data to identify business opportunities, determine where to locate operations and what types of goods and services to offer, and assess workforce availability. Businesses operating and supplying GQ facilities—nursing homes, assisted living facilities, prisons, mental hospitals, and hospices, for example—contribute significantly to the national economy. (For example, nursing and residential care facilities employed 2.9 million people in 2006.) The loss of ACS data on group quarters would inhibit the ability of these companies to identify where their services might be needed. As a result, the needs of a significant segment of the population would not be fully addressed, and job creation could be hindered.

Conclusion

Would anyone care if no data were collected about the characteristics of the population living in group quarters? As the above discussion makes clear, the short answer is a resounding "yes." We saw the uses of data on the GQ population for vital national, state, regional, and community purposes. Those who relied on the decennial census long form for demographic, social, and economic profiles of areas and population groups were promised that the ACS would be essentially the same as the long form and a replacement for it. If the GQ population is not included in the dataset, the ACS is not an adequate replacement for the long form. Additionally, data users have identified new uses of ACS data that were not possible with the outdated results from the long form, such as for emergency planning and projecting the need for nursing homes.

The cost of including the GQ population in the ACS is extremely modest compared to the benefits of the investment in both economic and human terms. Congress should keep this cost-benefit ratio in mind as it considers a continuing budget resolution for fiscal 2007 and appropriations bills for the Census Bureau in future years.

Appendix 1
Percent of Total Population in Group Quarters, by Congressional District, 2000

State, Congressional District (109th Congress)	Percent of total population in group quarters, 2000	Rank
Alabama, Congressional District 1	2.2%	275
Alabama, Congressional District 2	3.7%	96
Alabama, Congressional District 3	3.4%	119
Alabama, Congressional District 4	1.5%	365
Alabama, Congressional District 5	2.2%	284
Alabama, Congressional District 6	1.9%	315
Alabama, Congressional District 7	3.3%	133
Alaska, Congressional District (at large)	3.1%	151
Arizona, Congressional District 1	4.5%	35
Arizona, Congressional District 2	1.7%	352
Arizona, Congressional District 3	0.9%	419
Arizona, Congressional District 4	2.6%	223
Arizona, Congressional District 5	1.3%	384
Arizona, Congressional District 6	0.7%	427
Arizona, Congressional District 7	2.9%	171
Arizona, Congressional District 8	2.6%	214
Arkansas, Congressional District 1	2.6%	221
Arkansas, Congressional District 2	2.8%	202
Arkansas, Congressional District 3	2.2%	280
Arkansas, Congressional District 4	3.4%	123
California, Congressional District 1	3.8%	87
California, Congressional District 2	2.2%	279
California, Congressional District 3	2.9%	180
California, Congressional District 4	2.5%	232
California, Congressional District 5	1.8%	335
California, Congressional District 6	3.4%	118
California, Congressional District 7	2.6%	213
California, Congressional District 8	2.6%	211
California, Congressional District 9	2.4%	259
California, Congressional District 10	1.6%	353
California, Congressional District 11	2.7%	208
California, Congressional District 12	1.3%	392
California, Congressional District 13	1.0%	413
California, Congressional District 14	2.7%	207
California, Congressional District 15	1.7%	343

California, Congressional District 16	1.4%	380
California, Congressional District 17	4.4%	43
California, Congressional District 18	2.4%	260
California, Congressional District 19	2.9%	178
California, Congressional District 20	7.5%	2
California, Congressional District 21	1.6%	362
California, Congressional District 22	5.4%	14
California, Congressional District 23	2.9%	174
California, Congressional District 24	2.2%	271
California, Congressional District 25	2.5%	225
California, Congressional District 26	2.4%	253
California, Congressional District 27	1.8%	338
California, Congressional District 28	0.6%	432
California, Congressional District 29	1.8%	328
California, Congressional District 30	3.5%	110
California, Congressional District 31	1.4%	378
California, Congressional District 32	1.1%	407
California, Congressional District 33	2.0%	307
California, Congressional District 34	4.1%	64
California, Congressional District 35	1.0%	409
California, Congressional District 36	0.8%	421
California, Congressional District 37	1.5%	376
California, Congressional District 38	1.4%	383
California, Congressional District 39	1.2%	402
California, Congressional District 40	2.0%	311
California, Congressional District 41	3.1%	152
California, Congressional District 42	2.1%	303
California, Congressional District 43	1.3%	396
California, Congressional District 44	2.4%	252
California, Congressional District 45	2.5%	236
California, Congressional District 46	1.6%	363
California, Congressional District 47	1.3%	398
California, Congressional District 48	1.9%	323
California, Congressional District 49	3.5%	113
California, Congressional District 50	1.5%	364
California, Congressional District 51	3.7%	92
California, Congressional District 52	1.3%	393
California, Congressional District 53	7.2%	3
Colorado, Congressional District 1	2.2%	282
Colorado, Congressional District 2	1.8%	327
Colorado, Congressional District 3	2.8%	201
Colorado, Congressional District 4	3.4%	117

Colorado, Congressional District 5	4.3%	49
Colorado, Congressional District 6	0.6%	431
Colorado, Congressional District 7	1.7%	347
Connecticut, Congressional District 1	2.7%	209
Connecticut, Congressional District 2	5.2%	22
Connecticut, Congressional District 3	3.3%	134
Connecticut, Congressional District 4	1.9%	324
Connecticut, Congressional District 5	2.7%	205
Delaware, Congressional District (at large)	3.1%	158
District of Columbia, Delegate at Large	6.2%	6
Florida, Congressional District 1	5.4%	17
Florida, Congressional District 2	5.7%	10
Florida, Congressional District 3	2.9%	184
Florida, Congressional District 4	4.0%	67
Florida, Congressional District 5	2.5%	226
Florida, Congressional District 6	3.7%	98
Florida, Congressional District 7	2.4%	256
Florida, Congressional District 8	1.3%	400
Florida, Congressional District 9	1.5%	375
Florida, Congressional District 10	2.4%	257
Florida, Congressional District 11	2.5%	231
Florida, Congressional District 12	2.6%	216
Florida, Congressional District 13	2.4%	249
Florida, Congressional District 14	1.3%	388
Florida, Congressional District 15	1.6%	358
Florida, Congressional District 16	1.8%	336
Florida, Congressional District 17	2.1%	298
Florida, Congressional District 18	2.1%	302
Florida, Congressional District 19	0.9%	418
Florida, Congressional District 20	0.8%	424
Florida, Congressional District 21	1.3%	385
Florida, Congressional District 22	1.2%	404
Florida, Congressional District 23	3.7%	101
Florida, Congressional District 24	2.3%	266
Florida, Congressional District 25	2.3%	263
Georgia, Congressional District 1	4.1%	62
Georgia, Congressional District 2	4.9%	26
Georgia, Congressional District 3	6.0%	8
Georgia, Congressional District 4	2.1%	293
Georgia, Congressional District 5	5.0%	24
Georgia, Congressional District 6	0.5%	433
Georgia, Congressional District 7	0.9%	417

Georgia, Congressional District 8	1.7%	339
Georgia, Congressional District 9	2.0%	308
Georgia, Congressional District 10	1.3%	390
Georgia, Congressional District 11	2.7%	206
Georgia, Congressional District 12	4.8%	28
Georgia, Congressional District 13	1.4%	377
Hawaii, Congressional District 1	3.1%	159
Hawaii, Congressional District 2	2.8%	188
Idaho, Congressional District 1	2.3%	265
Idaho, Congressional District 2	2.5%	248
Illinois, Congressional District 1	1.7%	350
Illinois, Congressional District 2	1.0%	412
Illinois, Congressional District 3	0.9%	416
Illinois, Congressional District 4	0.4%	436
Illinois, Congressional District 5	1.4%	382
Illinois, Congressional District 6	1.7%	344
Illinois, Congressional District 7	4.3%	52
Illinois, Congressional District 8	0.6%	430
Illinois, Congressional District 9	3.4%	127
Illinois, Congressional District 10	3.5%	109
Illinois, Congressional District 11	3.7%	99
Illinois, Congressional District 12	3.5%	114
Illinois, Congressional District 13	1.7%	340
Illinois, Congressional District 14	2.8%	194
Illinois, Congressional District 15	5.0%	25
Illinois, Congressional District 16	1.3%	394
Illinois, Congressional District 17	4.2%	53
Illinois, Congressional District 18	3.9%	75
Illinois, Congressional District 19	4.3%	51
Indiana, Congressional District 1	1.6%	354
Indiana, Congressional District 2	3.6%	107
Indiana, Congressional District 3	1.7%	351
Indiana, Congressional District 4	3.8%	88
Indiana, Congressional District 5	2.1%	300
Indiana, Congressional District 6	2.9%	176
Indiana, Congressional District 7	2.5%	245
Indiana, Congressional District 8	4.4%	42
Indiana, Congressional District 9	3.7%	91
Iowa, Congressional District 1	3.6%	104
Iowa, Congressional District 2	3.6%	108
Iowa, Congressional District 3	2.8%	195
Iowa, Congressional District 4	4.6%	34

Iowa, Congressional District 5	3.2%	143
Kansas, Congressional District 1	3.4%	125
Kansas, Congressional District 2	4.6%	33
Kansas, Congressional District 3	2.1%	304
Kansas, Congressional District 4	2.0%	309
Kentucky, Congressional District 1	3.3%	138
Kentucky, Congressional District 2	2.9%	175
Kentucky, Congressional District 3	1.8%	337
Kentucky, Congressional District 4	2.0%	313
Kentucky, Congressional District 5	2.8%	196
Kentucky, Congressional District 6	4.1%	65
Louisiana, Congressional District 1	1.7%	342
Louisiana, Congressional District 2	2.9%	182
Louisiana, Congressional District 3	1.5%	371
Louisiana, Congressional District 4	3.3%	137
Louisiana, Congressional District 5	5.3%	19
Louisiana, Congressional District 6	4.3%	48
Louisiana, Congressional District 7	2.3%	261
Maine, Congressional District 1	2.2%	285
Maine, Congressional District 2	3.2%	147
Maryland, Congressional District 1	2.4%	250
Maryland, Congressional District 2	1.4%	379
Maryland, Congressional District 3	3.9%	79
Maryland, Congressional District 4	0.8%	423
Maryland, Congressional District 5	2.7%	204
Maryland, Congressional District 6	3.7%	102
Maryland, Congressional District 7	4.1%	60
Maryland, Congressional District 8	1.3%	395
Massachusetts, Congressional District 1	4.6%	31
Massachusetts, Congressional District 2	3.0%	170
Massachusetts, Congressional District 3	3.0%	161
Massachusetts, Congressional District 4	3.7%	97
Massachusetts, Congressional District 5	2.5%	242
Massachusetts, Congressional District 6	2.4%	251
Massachusetts, Congressional District 7	2.9%	173
Massachusetts, Congressional District 8	7.6%	1
Massachusetts, Congressional District 9	3.1%	154
Massachusetts, Congressional District 10	2.1%	294
Michigan, Congressional District 1	3.9%	77
Michigan, Congressional District 2	3.0%	167
Michigan, Congressional District 3	2.8%	203
Michigan, Congressional District 4	4.0%	70

Michigan, Congressional District 5	1.5%	370
Michigan, Congressional District 6	3.1%	149
Michigan, Congressional District 7	4.0%	73
Michigan, Congressional District 8	3.1%	157
Michigan, Congressional District 9	1.5%	368
Michigan, Congressional District 10	1.3%	391
Michigan, Congressional District 11	1.2%	401
Michigan, Congressional District 12	1.1%	405
Michigan, Congressional District 13	2.4%	258
Michigan, Congressional District 14	1.1%	408
Michigan, Congressional District 15	3.6%	106
Minnesota, Congressional District 1	3.7%	89
Minnesota, Congressional District 2	1.9%	321
Minnesota, Congressional District 3	0.9%	420
Minnesota, Congressional District 4	3.0%	162
Minnesota, Congressional District 5	3.8%	85
Minnesota, Congressional District 6	2.5%	243
Minnesota, Congressional District 7	3.4%	122
Minnesota, Congressional District 8	2.9%	181
Mississippi, Congressional District 1	2.5%	244
Mississippi, Congressional District 2	4.5%	36
Mississippi, Congressional District 3	3.2%	142
Mississippi, Congressional District 4	3.2%	145
Missouri, Congressional District 1	2.2%	278
Missouri, Congressional District 2	1.6%	357
Missouri, Congressional District 3	2.1%	290
Missouri, Congressional District 4	4.1%	61
Missouri, Congressional District 5	1.9%	322
Missouri, Congressional District 6	3.4%	121
Missouri, Congressional District 7	3.3%	131
Missouri, Congressional District 8	3.0%	165
Missouri, Congressional District 9	4.6%	32
Montana, Congressional District (at large)	2.7%	210
Nebraska, Congressional District 1	3.8%	86
Nebraska, Congressional District 2	2.3%	262
Nebraska, Congressional District 3	2.8%	197
Nevada, Congressional District 1	1.8%	331
Nevada, Congressional District 2	2.5%	238
Nevada, Congressional District 3	0.8%	422
New Hampshire, Congressional District 1	2.5%	241
New Hampshire, Congressional District 2	3.2%	146
New Jersey, Congressional District 1	2.1%	295

New Jersey, Congressional District 2	3.7%	90
New Jersey, Congressional District 3	2.2%	273
New Jersey, Congressional District 4	2.1%	296
New Jersey, Congressional District 5	1.7%	349
New Jersey, Congressional District 6	2.8%	192
New Jersey, Congressional District 7	1.9%	317
New Jersey, Congressional District 8	1.9%	325
New Jersey, Congressional District 9	1.0%	410
New Jersey, Congressional District 10	2.6%	220
New Jersey, Congressional District 11	2.0%	312
New Jersey, Congressional District 12	4.0%	72
New Jersey, Congressional District 13	2.1%	292
New Mexico, Congressional District 1	1.9%	318
New Mexico, Congressional District 2	2.5%	239
New Mexico, Congressional District 3	1.6%	361
New York, Congressional District 1	2.8%	199
New York, Congressional District 2	1.5%	367
New York, Congressional District 3	1.0%	415
New York, Congressional District 4	1.7%	345
New York, Congressional District 5	1.6%	360
New York, Congressional District 6	1.8%	333
New York, Congressional District 7	1.6%	355
New York, Congressional District 8	3.6%	103
New York, Congressional District 9	1.0%	411
New York, Congressional District 10	2.5%	230
New York, Congressional District 11	1.3%	397
New York, Congressional District 12	1.4%	381
New York, Congressional District 13	1.6%	359
New York, Congressional District 14	2.3%	268
New York, Congressional District 15	5.8%	9
New York, Congressional District 16	2.6%	224
New York, Congressional District 17	2.6%	217
New York, Congressional District 18	2.8%	189
New York, Congressional District 19	4.4%	45
New York, Congressional District 20	4.3%	47
New York, Congressional District 21	4.5%	37
New York, Congressional District 22	6.0%	7
New York, Congressional District 23	6.7%	4
New York, Congressional District 24	5.4%	16
New York, Congressional District 25	2.5%	228
New York, Congressional District 26	4.9%	27
New York, Congressional District 27	3.2%	144

New York, Congressional District 28	3.0%	163
New York, Congressional District 29	4.4%	39
North Carolina, Congressional District 1	3.5%	115
North Carolina, Congressional District 2	6.3%	5
North Carolina, Congressional District 3	5.4%	15
North Carolina, Congressional District 4	3.4%	128
North Carolina, Congressional District 5	2.1%	291
North Carolina, Congressional District 6	1.5%	373
North Carolina, Congressional District 7	2.3%	270
North Carolina, Congressional District 8	2.8%	187
North Carolina, Congressional District 9	1.0%	414
North Carolina, Congressional District 10	2.2%	274
North Carolina, Congressional District 11	3.0%	166
North Carolina, Congressional District 12	4.2%	58
North Carolina, Congressional District 13	3.3%	130
North Dakota, Congressional District (at large)	3.7%	93
Ohio, Congressional District 1	2.3%	269
Ohio, Congressional District 2	1.7%	341
Ohio, Congressional District 3	3.3%	135
Ohio, Congressional District 4	3.9%	78
Ohio, Congressional District 5	2.5%	247
Ohio, Congressional District 6	3.7%	100
Ohio, Congressional District 7	4.2%	57
Ohio, Congressional District 8	2.3%	267
Ohio, Congressional District 9	2.2%	272
Ohio, Congressional District 10	1.5%	374
Ohio, Congressional District 11	3.0%	169
Ohio, Congressional District 12	1.9%	319
Ohio, Congressional District 13	2.0%	310
Ohio, Congressional District 14	1.3%	399
Ohio, Congressional District 15	3.5%	116
Ohio, Congressional District 16	2.5%	227
Ohio, Congressional District 17	3.0%	164
Ohio, Congressional District 18	2.5%	233
Oklahoma, Congressional District 1	1.9%	320
Oklahoma, Congressional District 2	3.3%	132
Oklahoma, Congressional District 3	4.4%	40
Oklahoma, Congressional District 4	3.9%	81
Oklahoma, Congressional District 5	2.8%	200
Oregon, Congressional District 1	2.1%	301
Oregon, Congressional District 2	2.5%	237
Oregon, Congressional District 3	1.8%	334

Oregon, Congressional District 4	1.8%	329
Oregon, Congressional District 5	3.1%	156
Pennsylvania, Congressional District 1	2.8%	190
Pennsylvania, Congressional District 2	4.6%	30
Pennsylvania, Congressional District 3	4.7%	29
Pennsylvania, Congressional District 4	2.2%	277
Pennsylvania, Congressional District 5	5.3%	18
Pennsylvania, Congressional District 6	3.9%	76
Pennsylvania, Congressional District 7	3.4%	120
Pennsylvania, Congressional District 8	1.5%	369
Pennsylvania, Congressional District 9	3.3%	140
Pennsylvania, Congressional District 10	4.3%	50
Pennsylvania, Congressional District 11	4.0%	66
Pennsylvania, Congressional District 12	3.4%	129
Pennsylvania, Congressional District 13	2.9%	183
Pennsylvania, Congressional District 14	4.2%	54
Pennsylvania, Congressional District 15	3.3%	139
Pennsylvania, Congressional District 16	3.5%	111
Pennsylvania, Congressional District 17	3.5%	112
Pennsylvania, Congressional District 18	2.5%	229
Pennsylvania, Congressional District 19	3.9%	74
Rhode Island, Congressional District 1	4.3%	46
Rhode Island, Congressional District 2	3.2%	141
South Carolina, Congressional District 1	2.1%	297
South Carolina, Congressional District 2	4.2%	56
South Carolina, Congressional District 3	3.4%	124
South Carolina, Congressional District 4	2.8%	191
South Carolina, Congressional District 5	2.5%	240
South Carolina, Congressional District 6	5.2%	20
South Dakota, Congressional District (at large)	3.8%	84
Tennessee, Congressional District 1	2.2%	281
Tennessee, Congressional District 2	2.6%	222
Tennessee, Congressional District 3	2.3%	264
Tennessee, Congressional District 4	2.1%	288
Tennessee, Congressional District 5	3.9%	83
Tennessee, Congressional District 6	2.1%	287
Tennessee, Congressional District 7	2.5%	234
Tennessee, Congressional District 8	3.1%	153
Tennessee, Congressional District 9	2.6%	218
Texas, Congressional District 1	3.2%	148
Texas, Congressional District 2	3.7%	95
Texas, Congressional District 3	0.5%	435

Texas, Congressional District 4	3.1%	155
Texas, Congressional District 5	3.9%	82
Texas, Congressional District 6	2.0%	305
Texas, Congressional District 7	1.1%	406
Texas, Congressional District 8	4.1%	63
Texas, Congressional District 9	0.7%	426
Texas, Congressional District 10	1.8%	326
Texas, Congressional District 11	3.6%	105
Texas, Congressional District 12	2.6%	219
Texas, Congressional District 13	5.6%	11
Texas, Congressional District 14	2.8%	198
Texas, Congressional District 15	3.0%	160
Texas, Congressional District 16	2.0%	306
Texas, Congressional District 17	5.2%	21
Texas, Congressional District 18	3.1%	150
Texas, Congressional District 19	4.4%	41
Texas, Congressional District 20	3.3%	136
Texas, Congressional District 21	3.0%	168
Texas, Congressional District 22	1.3%	386
Texas, Congressional District 23	2.1%	289
Texas, Congressional District 24	0.5%	434
Texas, Congressional District 25	2.4%	254
Texas, Congressional District 26	2.2%	283
Texas, Congressional District 27	1.8%	330
Texas, Congressional District 28	2.9%	179
Texas, Congressional District 29	0.7%	428
Texas, Congressional District 30	2.9%	185
Texas, Congressional District 31	5.5%	13
Texas, Congressional District 32	1.3%	387
Utah, Congressional District 1	1.7%	348
Utah, Congressional District 2	2.0%	314
Utah, Congressional District 3	1.7%	346
Vermont, Congressional District (at large)	3.4%	126
Virginia, Congressional District 1	2.8%	193
Virginia, Congressional District 2	5.6%	12
Virginia, Congressional District 3	4.4%	44
Virginia, Congressional District 4	4.0%	68
Virginia, Congressional District 5	4.4%	38
Virginia, Congressional District 6	5.1%	23
Virginia, Congressional District 7	2.2%	276
Virginia, Congressional District 8	1.2%	403
Virginia, Congressional District 9	4.0%	69

Virginia, Congressional District 10	0.8%	425
Virginia, Congressional District 11	1.5%	366
Washington, Congressional District 1	1.5%	372
Washington, Congressional District 2	2.1%	299
Washington, Congressional District 3	1.3%	389
Washington, Congressional District 4	1.6%	356
Washington, Congressional District 5	4.2%	59
Washington, Congressional District 6	2.8%	186
Washington, Congressional District 7	4.2%	55
Washington, Congressional District 8	0.6%	429
Washington, Congressional District 9	2.5%	246
West Virginia, Congressional District 1	2.9%	177
West Virginia, Congressional District 2	1.9%	316
West Virginia, Congressional District 3	2.4%	255
Wisconsin, Congressional District 1	2.5%	235
Wisconsin, Congressional District 2	3.7%	94
Wisconsin, Congressional District 3	3.9%	80
Wisconsin, Congressional District 4	2.6%	215
Wisconsin, Congressional District 5	1.8%	332
Wisconsin, Congressional District 6	4.0%	71
Wisconsin, Congressional District 7	2.2%	286
Wisconsin, Congressional District 8	2.6%	212
Wyoming, Congressional District (at large)	2.9%	172

Note: At the time this table was created, data were not available for districts of the 110th Congress. (The only difference between the 109th Congress and the 110th is redrawn districts in Texas and Georgia.)

THE SECRETARY OF COMMERCE
Washington, D.C. 20230

January 19, 2007

The Honorable Alan B. Mollohan
Chairman
Subcommittee on Commerce, Justice,
Science, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

As you know, in 2001 the Department of Commerce began implementing an initiative to reengineer the 2010 Decennial Census to improve the relevance and timeliness of census long form data, reduce operational risk, improve the accuracy of census coverage, and contain costs. This initiative to reengineer the 2010 Census, and capture significant budgetary savings over the life-cycle of the Census, currently remains on track. However, the likelihood of a full-year continuing resolution (CR) for FY 2007 that provides funding that is frozen at the FY 2006 level will have detrimental consequences for the 2010 Census and for this reengineering program. Operating under a full-year CR in 2007 will result in an $88 million reduction to the President's Budget for Census Bureau's Periodic Censuses and Programs account – $63 million of which would be taken from the 2010 Census reengineering effort. A reduction of this magnitude will have a major impact on counting the population in 2010.

For the Census Bureau, the increase in the FY 2007 budget over FY 2006 is not the result of new initiatives or expanding base programs. Rather, the increase stems from the previously anticipated ramp-up of existing cyclical programs. These cyclical programs require more resources in FY 2007 over FY 2006 because they are conducting more activities; this growth is necessary to prepare for the peak years of activities that are yet to come. For the Economic Census and the Census of Governments, the pinnacle of activity is soon – the current five-year cycle will crest in FY 2008 in a broad data collection effort. Prior to that, in FY 2007, it is important that the development of collection instruments and processing systems take place. For example, one new activity is the construction of the mailing list covering 26 million businesses – a critical step before they can be contacted for the Economic Census. Without the funding increases in the President's Budget request, the data products from the Economic and Government Censuses will be delayed 6 to 8 months.

The other major cyclical effort is the 2010 Decennial Census Program. Every year between now and FY 2010, more needs to be done to prepare for the massive field operation. Because each year's activities build on what was accomplished in the previous year, it is important to keep the development process on schedule from year to year. For example, the 2008 Census Dress Rehearsal is the Census Bureau's one chance to put all the field operation pieces together and make sure they function as intended ahead of the actual nationwide census in 2010. FY 2007 has several new activities that need to be completed ahead of the 2008 Census Dress Rehearsal – from developing the field materials, procedures, and training formats for the temporary workforce to implementing a management plan for the shipment of forms, equipment, and supplies to the field offices. These are in addition to finishing development of the hand-held computers and the automated data collection systems.

If the Census Bureau does not receive sufficient funding in FY 2007, it would have to eliminate all efforts to develop and implement hand-held computers for use in address listing and in the non-response follow-up (NRFU) field operations. This equipment and methodology must be tested during the 2008 Census Dress Rehearsal, for which early operations already have begun. Without sufficient field testing, the hand-held computers cannot be used in 2010. The Census Bureau's only option would be to revert to paper-based operations that will add more than $1 billion to the overall cost of the 2010 Census and will likely harm coverage quality.

In addition to adding significant costs to the 2010 Census, reverting back to a paper-based operation will compromise efforts devoted toward improved coverage (i.e., reducing undercounts, overcounts, and geographic misallocations), and will significantly increase the risk of operational failure during the 2010 Census. More specifically, efforts and investments to improve coverage via the realignment to Global Positioning System coordinates of street locations for 3,232 counties across the Nation, Puerto Rico, and island areas will be lost. Curtailing this effort now will leave approximately 720 counties, including the entire State of Connecticut, uncorrected. Even the street locations for the counties that have been corrected will not benefit 2010 Census operations and coverage because enumerators will not have the hand-held computers and will have to revert back to paper maps. Therefore, this investment will have been wasted as far as the 2010 Census in concerned.

Mr. Chairman, it is because of these issues that I urge your continued support of the President's Budget request for the Census Bureau during proceedings on the FY 2007 budget.

Sincerely,

Carlos M. Gutierrez

U.S. Census Bureau
FY 2007
Impact of Alternative Proposal for Spreading $58.3 million
in cuts to Periodic Censuses and Programs

The Census Bureau provided an impact statement that stated that the House mark, taken literally (with $53.3 million reduced from the decennial area), would mean that we could not fund the handhelds to be used in the 2010 census *unless Census were allowed to implement a mitigation strategy*. The Census Bureau's mitigation strategy involves shifting the decennial reduction to other Census Bureau programs. Basically, it would move $19 million of the decennial reductions to non-decennial programs. Economic survey programs would take the largest reduction ($10 million) with other programs taking the balance.

Salaries and Expenses ($11.4 million cut)

Current Economic Statistics ($10 million cut)

The Census Bureau used the following criteria to evaluate the Economic Statistics programs:

- Preserve programs and content (Census of Governments and Economic Census sector components) that serve as benchmarks for Census Bureau current surveys and composite measures of economic activity (GDP, Producer Price Index, and Index of Industrial Production).
- Retain Programs (Principal Economic Indicators) that provide GDP source data and annuals surveys providing data used in BEA's National Income and Product Accounts or the Federal Reserve Board's Flow of Funds program.
- Protect core infrastructure (Business Register and processing hardware systems) that support appropriated programs.
- The proposed reduction that follow adhere to this criteria.

Quarterly Services Survey – Principal Economic Indicator ($1.4 million cut)

- Abandon plans to expand industry coverage of the Quarterly Service Survey (QSS). The QSS currently covers 3 service sectors and part of health care, accounting for 17% of GDP.
- The Census Bureau will not be able to proceed with the planned expansion of QSS coverage, scheduled for January 2007.
- This expansion would have provided Bureau of Economic Analysis (BEA) with new GDP source data on rental and leasing; arts, recreation, and entertainment; other services; and the remainder of health care and social assistance industries.

Quarterly Residential Improvements and Repair Data – source data for Value Put in Place Survey ($1.0 million cut)

- Eliminate the Survey of Residential Alterations and Repairs.
- Terminating this survey would deprive the BEA and GDP of the only data on residential alterations and repair, a market that now exceeds $180 billion a year.

Current Industrial Reports Program – 42 monthly, quarterly, and annual product surveys ($3.9 million cut)

- Eliminate the Current Industrial Reports program.
- This program collects unique data on some 5,000 manufactured products in 10 monthly, 12 quarterly, and 29 annual surveys.
- Loss of these data will eliminate key source data used by the BEA for GDP and the Federal Reserve Board for the Index of Industrial Production.
- The data also are used in trade negotiations by the Office of the United States trade representative, the International Trade Commission, and the Office of Textiles and Apparel within the Department of Commerce.
- The loss of domestic production data will make it impossible to assess the impact of increased imports on domestic industries.

Quarterly Financial Reports Program – Principal Economic Indicator ($1.5 million cut)

- Eliminate coverage of small manufacturers in the Quarterly Financial Report (QFR) program.
- The Census Bureau would raise the assets coverage threshold from $250,000 to $50 million for manufacturing corporations, cutting the quarterly sample in half.
- The QFR program is a principal economic indicator and is the source of corporate profit and balance sheet data for manufacturing, mining, retail, and wholesale trade.
- The proposed cut represents approximately 6 percent of manufacturing assets and 13 percent of sales.

Annual County Business Patterns Program – generated from Business Register and Annual Nonemployer Businesses series – byproduct of the Business Register ($0.8 million cut)

- Drop the annual County Business Patterns and Nonemployer Business reports for one year.
- These series provide the only source of annual county-level data on businesses with and without paid employees by industry.

Annual Information and Communication Technology Survey ($1.5 million cut)

- Eliminate the Information and Communication Technology (ICT) Survey.

- A new program, first funded in 2003, the ICT survey collects data on capitalized and non-capitalized information and communication technology related expenses.
- ICT expenses are considered one of the major drivers of the new economy.
- The Bureau of Economic Analysis, the Federal Reserve Board, and the Bureau of Labor Statistics use these data to evaluate future productivity and economic growth prospects.

Current Demographic Statistics ($1.4 million cut)

Foreign Research and Analyses ($1.4 million cut)

- If this program was eliminated, the Census Bureau would not be able to generate the economic, social and demographic information on developing countries and countries in transition, such as the former Soviet Union, China, and the countries of Eastern Europe, which are used by policy makers in the international assistance and intelligence communities, as well as by American businesses, the International Trade Administration, the World Bank, the International Monetary Fund, and Congress to assess these countries and their potential as markets.

Periodic Censuses and Programs ($46.9 million cut)

Economic Census ($2.5 million cut)

- A $2.5 million reduction in the FY 2007 Economic Census programs request would result in a scaling back of the Survey of Business Owners (SBO) to cover only businesses with paid employees.
- Depending on the constituency being measured, nonemployer businesses account for 71% to 92% of the number of businesses, but only 11% to 26% of their total receipts.
- SBO is a primary source of information on the characteristics of business owners (gender, race/ethnicity, age, education, veteran status, disability, etc) and businesses (family-owned, franchised, etc).
- While not used by the Bureau of Economic Analysis, the data are used by the Minority Business Development Agency, the Small Business Administration and other federal, state, and local agencies to assess changes in women- and minority-owned businesses and business activities and to analyze the effectiveness of minority business assistance programs. The data are also used to establish new business development programs and policies.

2010 Decennial Census ($34.1 million cut)

MAF/TIGER—Street Center Line Work & Project Management Office ($5.0 million cut)

- Would still finish initial county realignment in FY 2008.

- Would not be able to revisit some counties done early in the cycle that the Census Bureau wanted to recheck.

MAF/TIGER—Community Address Updating System (CAUS) ($9.0 million cut)

- Without CAUS, the Census Bureau will not be able to add rural, non-city style address to MAF until address canvassing, creating more workload and schedule risk for that operation.

ACS—Group Quarters ($9.2 million cut)

- Without group quarters, the ACS will not be a complete replacement for the long form because the Census Bureau will lack detailed data on residents of group quarters.

ACS—Methods Panel ($10.9 million cut)

- Without the methods panel, the Census Bureau will not be able to add questions to the ACS or modify current question wording since the Census Bureau will have no way to test changes.

Demographic Survey Sample Redesign ($5.3 million cut)

- The proposed cut to demographic surveys sample redesign will seriously jeopardize the Census Bureau's ability to continue its reimbursable surveys with key sponsors.
- The Census Bureau will be in breach of our agreement with the sponsors and the OMB to obtain the necessary sample redesign funds.
- The Census Bureau is expected to fund the majority of the Sample Redesign effort, for work common to the surveys, while the sponsors are to provide funds for work specific to their particular survey.
- These funds are needed to revamp the way the Census Bureau does sample redesign using the continually updated Master Address File and American Community Survey data, as the Census Bureau promised sponsors, to help reduce survey costs.

Geographic Support ($5.0 million cut)

MAF/TIGER Database Operations ($5.0 million cut)

- Halts state and local partnerships and MAFGOR operations, reducing accuracy of MAF and housing unit coverage in the sampling frame for the ACS.

January 16, 2007

The Honorable David Obey
Chair, Appropriations Committee,
US House of Representatives
Room H-218, The Capitol
Washington, D.C. 20515

Dear Chairman Obey:

On behalf of the board of the Council for Community and Economic Research (C2ER), I am writing to strongly urge you to appropriate the full funding level requested by President Bush for the U.S. Census Bureau for Fiscal Year 2007.

C2ER's mission is to promote job creation through excellence in community and economic research. With over 500 members across the nation—including chambers of commerce, economic development organizations, utility companies, local government agencies, and universities— C2ER has long supported the understanding that a healthy federal statistical system is key to local job creation and that the Census Bureau is central to this statistical system. Businesses, large and small, rely on census demographic and economic numbers for states, metro areas, counties, cities, and neighborhoods to determine where to locate operations. State and local analysts use census figures to assess the economic health of their areas and craft development strategies accordingly. Local governments decide where to put highways, schools, and police on the basis of these data. Very importantly, billions of dollars in federal funds are directed to states and localities according to census figures. So to a degree larger than most realize, the efficient functioning of the U.S. economy relies on accurate Census demographic and economic statistics for local areas.

In 2007, the Census Bureau will be carrying out tasks that will determine the availability of such numbers for years to come. These tasks include preparing for the 2010 census, implementing the full-scale American Community Survey (ACS), and carrying out the 2007 Economic Census as required by law. The Census Bureau requires a budget sufficient to see that these tasks are successfully performed. If Congress does not appropriate the President's requested increase over the Fiscal Year 2006 level, significant elements of these and other important periodic economic and demographic data programs will be in jeopardy:

- ✓ For the 2010 Census, the Census Bureau has said it will halt development of GPS-equipped handheld computers for address canvassing and follow-up interviews with unresponsive households. The planned automation of field work, the most costly phases of the census, represents the single greatest advancement in census operations for 2010. Without this innovation, the cost of the 2010 census could increase by $1 billion and the count will be less efficient and, therefore, probably less accurate.

- ✓ A budget cutback is expected to lead to the elimination of coverage of "group quarters" in the American Community Survey, which will leave local analysts without detailed demographic information on people living in college dormitories, nursing homes, military barracks, prisons, and other group facilities. With this part of the population missing from the data, local governments and businesses will lack a clear understanding of the trends, resources, and needs of their communities.

THE COUNCIL FOR COMMUNITY
AND ECONOMIC RESEARCH

- ✓ Budget cuts for the Census Bureau will put at risk the 2007 Economic Census (conducted by law every five years) and several annual data series that are critical for business and economic decision making, including *County Business Patterns*, *Current Industrial Reports*, and *Small Area Income and Poverty Estimates*. A thorough, complete Economic Census is crucial to the development of accurate regional economic input-output models, used by analysts to determine economic and fiscal impacts of alternative development scenarios.

Further delays in providing the funding requested by the President for Census Bureau activities will result in less published data, less useful and accurate data, and more costly, labor intensive, and time-consuming collection methods. Therefore, C2ER respectfully urges you to provide an exception for census programs in the Continuing Resolution you are considering for FY07 in order to ensure continued, comprehensive preparations for constitutionally and legally mandated censuses and for data programs on which the nation's regional economies rely.

Sincerely,

Melissa Armstrong
Chair, Council for Community and Economic Research

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